Inc.

THE MAGAZINE FOR GROWING COMPANIES

DO-IT-YOURSELF MARKETING

HOW YOUR COMPANY CAN SELL MORE BY SPENDING LESS

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by JOHN MADERE

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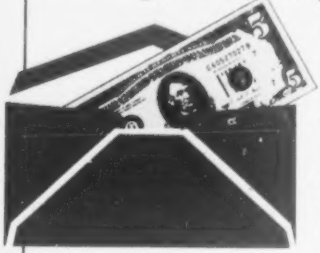
loss. Radiant also negotiates the right to use the findings for its own purposes, without restrictions. That's not a problem, the CEO claims, since the sponsors aren't direct competitors, partly by virtue of their size and partly because their applications are different.

In fact, Bullington has since teamed up with an "underwriter" on a research project that may lead to a joint marketing-and-development agreement. He's also one step closer to his long-term goals, with plans to enter the optical-disk-drive market in about two years.

The research results, he says, "validated where we want to go. When you're making business plans and projections, having a report in hand gives you a lot more credibility. Before, there was no way we could verify my gut instinct. This was a sanity check." *—Susan Greco*

RETAIL PROMOTIONS

Pushing the Envelope



WHAT WOULD YOU PAY FOR a tactic that gets new customers into your store, gives you an unbiased report on your company's service, and brings you lots of new ideas?

Gary Cino, CEO of 98¢ Clearance Centers, thinks it's worth $5.

When Cino, whose company is based in West Sacramento, Calif., meets someone who's never set foot in one of his 18 retail stores, where every item costs 98¢, he hands the prospect an envelope. Inside are $5, another envelope stamped and addressed to Cino, and a single-sheet questionnaire with a dozen queries such as "Did the cashier greet you at time of checkout?" The first-timers are also asked to rate the store's appearance and products, and to provide comments and suggestions. Customers are also asked to attach a copy of their cash-register receipt.

"We're bribing them, but it's a relatively inexpensive way to accomplish a lot of things," says Cino, whose stores gross almost $30 million annually. He and his executives pass out some 500 packets a year, amounting to a measly $2,500 cash expense. About 85% of the shoppers return the survey within 90 days. Responses are posted at each store.

The attached receipts show that most of the new customers spend considerably more than $5. The feedback is worth even more. "It lets our employees know that at any time, any given customer could report back to management," says Cino. As for changes, Cino is considering accepting personal checks because so many survey participants have mentioned them.

The envelope-and-cash technique is better than using mystery shoppers, says Cino. "We get more accurate information, and the respondents match our demographics." *—S. G.*

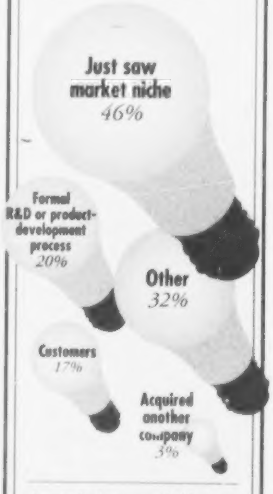
INNOVATION

How to Keep the Ideas Flowing

ALTHOUGH A MAJORITY OF *Inc.* 500 CEOs surveyed said the ideas for their products "just came to them" (see chart below), a company's future depends on how well it sustains a flow of ideas—on its ability to innovate. Not the CEO's ability to innovate, but the *company's*. "The founders' role," says Bob Johnston, a partner in IdeaScope, a consulting firm in Cambridge, Mass., "is to expand the ability and responsibility for innovation in the company beyond themselves."

How'd You Think of That?

Where did many CEOs of the fastest-growing companies get their ideas for new products and services? From —you guessed it —the It Just Came to Me Department. Formal research and development, it seems, rarely fueled diversification.



Source: An *Inc.* survey of 463 private companies reporting a five-year growth rate of 713% or higher since 1985.

Note: Total is higher than 100% because of multiple answers.

Consider the system used by Ed Katz, president of Choice Courier, a New York City–based messenger service. Katz prowls the company's halls late in the day. "That's where I get my best ideas," he says. "It's 6 o'clock at night. People are leaning against the walls. So I say to one guy, 'Hey, what do you know about such and such?' Before you know it, it's 7 o'clock, and I have the germ of an idea for a new product."

Katz informally shops the idea around among the staff to get different perspectives and as a coarse filter to catch obvious flaws. But as soon as he brings the still-rough idea to a Monday-morning management meeting, a more formal process takes over. It's no longer just the boss's idea, once it's been handed over to a joint committee that includes the chief operating officer, a product manager, and others (from sales, finance, operations, and so on) who join as time goes on.

The point is that at Choice, ideas may get examined and then rejected or eventually developed, but there's a system in place for dealing with them. If your company isn't innovating, the first thing to do is figure out why not. Here are some points to think about:

- **Attitude and values.** If anyone in your company—especially the CEO—feels comfortable calling someone else's idea stupid in a meeting, your company may have an attitude problem. Make a rule: no one may criticize another's idea until it's been open to

(Continued on page 182)

CHART: ROSS CULBERT LAVERY
& RUSSMAN INC., NEW YORK

How To Build Your Business From The Ground Up.

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(INNOVATION, from page 180) discussion for, say, five minutes.

- **Formal recognition of the importance the company places on innovation.** Make it part of every employee's review process. Reward people for ideas just as you reward them for performance.
- **Cross-pollination.** Instead of buying just one subscription to the magazines your marketing people read, buy two and circulate the second through finance or manufacturing. Get the marketing people reading some of the engineers' technical publications. Each group will see the other's literature with different eyes—and perhaps they'll come up with different ideas.
- **A CEO who facilitates the idea flow, but who isn't the obvious decision maker.** At meetings where new ideas are discussed, the CEO should step out of his or her executive role by giving someone else the marker and just taking a seat at the table. *—T. R. and S. G.*

RESOURCE

Selling by Voice Mail

The next time you make a telephone sales call, the odds are good you'll be talking to your target's voice mailbox. Don't get upset: use it. By definition, voice mail records your messages more accurately than a secretary or receptionist does, and it allows you to give the message some personality. The trick, says Madeline Bodin, author of *Using the Telephone More Effectively* (Barron's Educational Series, 1991), is to be prepared.

- **Have an agenda.** Jot down the points you want to make, so you're not tongue-tied after you hear the beep.
- **Include a commercial.** Don't try the prospect's patience, but 20 to 30 seconds spent describing the benefits of your product or service is not too much. Make sure the message you leave is geared to the individual whose phone mail you're using.
- **Call back in a week.** Leave your name and number and a good time to reach you, but also tell the person you'll phone back in a week, and then do so. *—T. R.*

(HIRING, from page 185)

about crimes relating to theft. *Never* ask about arrests, because they're not an indication of wrongdoing.

•

"Are you in good health?" The classic application-form question is, indeed, a no-no. "One can ask only about physical or mental impairments if they would limit an applicant's ability to do the job," explains Cabot.

•

"Finding good child care is so hard. Do you have any baby-sitting problems?" This inquiry is OK if you consistently ask it of *both* male and female applicants—and you can prove it. Otherwise it smacks of sex discrimination.

•

"I see you've spent a lot of time in Paris. Were you born there?" You can't ask if someone is a citizen of another country. You can ask about U.S. citizenship or if an applicant has the legal right to work in this country. ***—E. E. S.***

MOTIVATION

Spicing Up the Work

MANY COMPANY OWNERS can't make every job in their company interesting. Particularly if their product is inherently, well, *boring.* For example: How do you stimulate an employee who cuts 10-foot-long pieces of cable assembly all day?

That's what Randall Amon, CEO of ABL Electronics Corp., in Timonium, Md., wondered a few years ago. His solution: field trips. "By itself, our product just isn't very exciting. But if we can take employees out of the plant and show them how our products are used in a fetal monitoring device at a hospital, we can show them how their work fits into the world," says Amon.

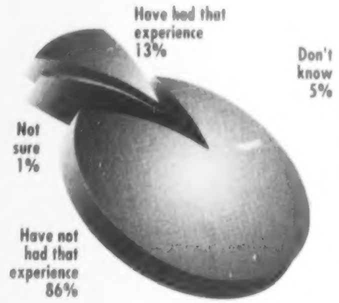
He tries to arrange such jaunts once every six months for all his 46 employees. The trips have been surprisingly effective. "People have more pride in their work when they understand how our products are used," says Amon. ***—E. E. S.***

WORK FORCE

AIDS: I'll Think About It Tomorrow

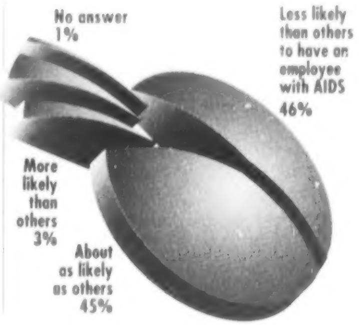
Few small companies have confronted any kind of long-term disability in their work force.

Have you ever had an employee with a serious, long-term medical condition that interfered with his or her ability to work?



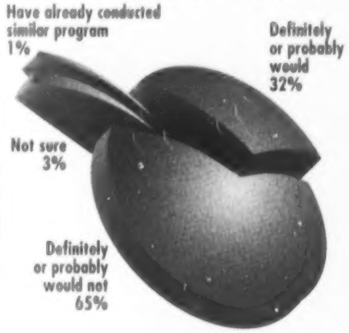
Nearly half feel they're less likely than other companies to ever have an employee with AIDS.

How vulnerable is your company to the HIV epidemic, compared with other similar companies?



And most would not schedule an AIDS-education session for their employees.

If cost were not an issue, would you schedule a one- to two-hour AIDS-education session, led by a Red Cross instructor, for your employees?



A RECENT RED CROSS SMALL-BUSINESS survey—emphasizing the views of companies with just nine or fewer employees—shows a breathtaking lack of preparation for the consequences of AIDS.

Though many companies feel surprisingly invulnerable to the epidemic and don't see the need to educate their employees about it, the facts suggest they should think again. The Centers for Disease Control estimates that 1 million Americans are infected—roughly one in every 250.

Charts Source: "HIV/AIDS Education in the Workplace: A National Survey of U.S. Small Businesses," American Red Cross, 1991.

RESOURCES

Your Company and AIDS

If you'd like to teach your employees more about AIDS, contact your local American Red Cross chapter. In partnership with The Centers for Disease Control, The Red Cross plans to roll out a nationwide HIV-education program for businesses in 1992. Call directory assistance to find your local chapter, or call 202-434-4074 for general information on Red Cross HIV- and AIDS-education programs.

If you don't think you're ready for a formal program but you would like to know how the disease may affect your business, The National Leadership Coalition on AIDS offers free pamphlets: "Questions Employers Ask and Answers You Need to Know" and the more comprehensive "Small Business and AIDS." To order them, call The National AIDS Clearinghouse at 800-458-5231. ***—E. E. S.***

CHARTS: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

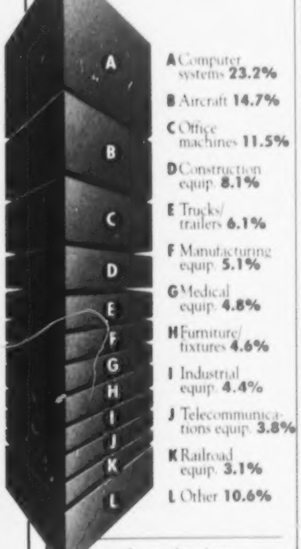
(LEASING, from page 189)
qualifies as a lease under federal-income-tax rules. In a true lease (which can be either a capital or an operating lease), the lessor owns the equipment and depreciates it while the lessee deducts lease payments as expenses. Unless you have a fixed-price purchase option at the end, this can be an expensive way to obtain equipment.

Finance lease. A noncancelable, long-term lease requiring no up-front investment from the lessee, who typically pays for insurance and maintenance. Could be set up as either a capital or an operating lease.

▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼ ▼

What Do Companies Lease?

During the past five years, leasing has grown mightily as a form of financing, and according to the U.S. Department of Commerce, leasing activity has exceeded overall business investment in equipment by a wide margin. Below is a breakdown showing what types of equipment companies are leasing. The percentages indicate new leasing business for the five-year period:



Source: American Association of Equipment Lessors, *Survey of Industry Activity 1990.*

Full-payout lease. A type of finance lease that commits the lessor to several years of payments, no matter what. With a full-payout lease, you get no protection from obsolescence.

Leveraged lease. A deal in which the lessor puts up some of the purchase price from its own funds and finances the rest with third-party debt. As equipment owner, the lessor gets some tax benefits, which boosts its return; it may or may not pass those along to the lessee as lower lease rates.

Master lease. The leasing equivalent of a credit line. A contract under which the lessee is able to add a set amount of new equipment without having to negotiate new terms and conditions each time. The agreement usually spells out the types of equipment covered and the period of time.

Net lease. Any lease in which the lessee assumes responsibility for operating expenses (insurance, maintenance, and taxes). Most varieties of leases, with the exception of short-term rentals, are written this way.

Open-end lease. A conditional sale whereby the lessee guarantees that the lessor will receive a minimum value at the end of the lease and agrees to make up any shortfall. Mostly used in connection with vehicle purchases. —*B. G. P.*

PLANNING

Finding Your Next Banker

DEPENDING ON HOW FAST your business is growing, you may reach a point when your local bank can't meet all your needs. Ideally, you'll see it coming way in advance. For example, RHS Fertilizing/Spraying Systems, of Hiawatha, Kans., which boosted its working capital line from $750,000 to $1.5 million, began preparing for that eventuality nearly two years ahead of time. Here's how CEO Rick Heiniger did it:

- **Research.** Heiniger pulled together names of about 20 banks within a 300-mile radius of his business, culling them from the yellow pages, a loan broker, and his current banker. Then, setting aside about an hour a day, he made exploratory phone calls.
- **Follow-up.** Four of the banks Heiniger called seemed interested, so each month he sent them information about the company, its performance, and its evolving needs. The mailings included projections and actual numbers.
- **Negotiations.** As the time to lock in with a new bank drew closer, two institutions were eager to pursue matters. The one Heiniger liked the best, however, was ready to advance only 75% against receivables, which made him nervous. "In a busy month," he worried, "I might not have enough assets to borrow what I needed." So he shifted his attention to the other bank. Eventually, he was able to nail down the money he needed, with terms and a rate he could live with.

—*Susan Greco*

CREDIT

Knowing the Score

CLEARLY, BANKERS ARE scrutinizing more carefully the loans they make. Systematic "loan grading" is becoming the norm at medium to large banks. Regulators are demanding it.

There's no universal scoring system that bankers use. But regardless, they will undoubtedly examine your business from several key angles, assigning points for such things as credit history, collateral, cash-flow coverage, the quality of your financial reports, and the strength of your management. The goal: to have a reliable and consistent method for determining (and tracking) the level of risk they *think* they're taking with a given business. Publicly traded banks also see grading systems as a step toward ensuring healthier returns on equity.

"The rating drives all sorts of things," says Keith LaRose, a vice-president in the small-business-lending area at Premier Bank, in Baton Rouge, La. "Everything from how much you'll be allowed to borrow, to the interest rate, to whether the bank will cover your overdrafts." The rating will change over time, based on performance of the company and the industry.

Given the potential impact, what's a prudent borrower to do? Ask your

(Continued on page 192)

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

BUSINESS FOR SALE

ARIZONA AM RADIO STATION

THE BUSINESS A stand-alone, 24-year-old, 5,000-watt AM radio station sited in the state's cotton capital (population 7,000), but broadcasting into greater metropolitan Phoenix and Tucson (50 and 60 miles away, respectively; combined population, 2.8 million). Currently offers national sports, news, and talk from 6 a.m. to 11 p.m. daily. On the market because of owner's death.

FINANCIAL SUMMARY

	1989	1990	1991*
[illegible]	$320,000	$308,000	$338,000
[illegible]	$63,000	$62,000	$84,000

*projected

PRICE $450,000

OUTLOOK The halcyon days of AM radio have passed (FM currently gets three listeners to AM's one; 20 years ago it was the other way around), but businesses like this one can still represent an opportunity. After a decade in which buying radio stations was increasingly fashionable and increasingly expensive, the credit-tight, ad-poor '90s have cut the average price of an AM outlet almost in half—to $600,000. Translation: it's now a buyer's market. This station's 1991 projections outpace industry trends, and its profit margins are better than average, as well.

PRICE RATIONALE In addition to the revenue stream, you're buying a broadcast tower and a 3,000-square-foot building on eight acres of land. Most AMs fetch six times earnings (FMs are closer to eight), but analysts say that any multiple above five might make it tough for the new owner of this operation—a stand-alone in a mostly rural market—to service the debt.

PROS A chance to be creative in a business where revenue gains go almost straight to the bottom line; unlike in print media, a bigger audience doesn't mean bigger production costs—just bigger ad prices. Fairly flexible format would make spontaneous, unusual advertising deals possible.

CONS Ratings. Specifically, their complete absence. This station is so small it doesn't even register in surveys by national listenership-ratings associations. No ratings: no national sales rep. No rep: no national advertisers. Just how creative are you ready to be? —*Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Tucson Business Investments, 602-750-1764.

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THE 1991 INC. 500

America's fastest-growing private companies

It's deja vu all over again.
—ANONYMOUS

"BUSINESS FAILURES, LAYOFFS, BATtered P&Ls, and loan defaults . . ."—thus began our introduction to the very first *Inc.* 500 list, nine years ago. It went on: "While the headlines continue to blurt bad news, American business winds up 1982 sputtering about Reaganomics and straining to justify optimism about the year ahead."

If the sputtering these days is no longer about Reaganomics and is concerned instead with shrunken business and consumer buying power, the unavailability of credit or capital, national budget deficits, global uncompetitiveness, and (did it slip past the first time?) the unavailability of credit or capital, there's still plenty of sputtering nonetheless. And optimism? Now as then, there's more of it in the headlines than on the streets. It's little wonder we feel, as the *Inc.* 500 list celebrates its 10th anniversary, that we've been here before.

Still, comparisons between our first ranking and this one reveal differences worth mentioning. In 1982 the typical *Inc.* 500 company posted a five-year growth rate of 571%, a walk in the park compared with the Class of 1991's hard-sprinting 1,467%. The typical '82 listee wouldn't even have placed 500th this year.

Another key contrast? *Productivity.* The Class of '82 averaged $60,446 in annual revenues per employee. This year's typical employee at an *Inc.* 500 company generates more than twice that—$133,986 a year.

Beyond those facts, and others charted on these opening pages, our 1991 *Inc.* 500 special report contains—

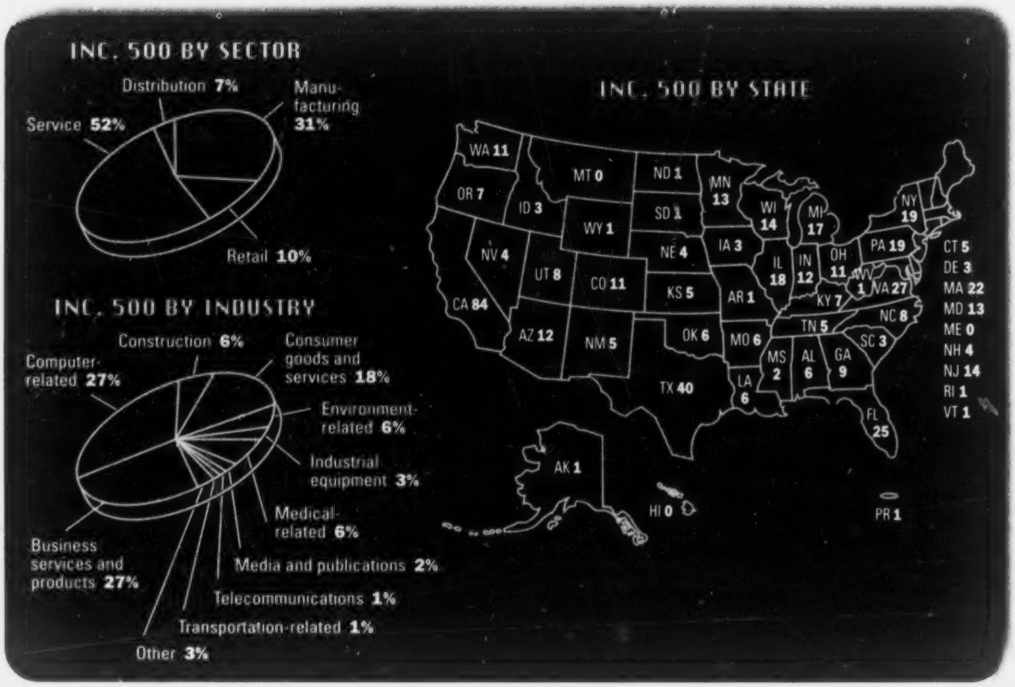
- **Who's Number One.** This year's top-ranked juggernaut is Gateway 2000, the South Dakota mail-order computer maker with the cowhide-inspired boxes. If you haven't yet encountered the company's rustic packaging, you likely soon will; Gateway topped the list with $275 million in 1990 sales (up from $1 million in 1986) but expects to hit ***$600 million*** in 1991. How? Find out on page 36.
- **Lessons from the List.** Forget the Big Picture. (Too often the *Inc.* 500 has been likened to a macroeconomic crystal ball.) What the list reveals best are practical tactics and market intelligence that company builders can exploit *right now.* In three features—"Hot Markets," page 102; "Growth Strategies," page 110; and "The Founders," page 116—we examine the list from three different perspectives. We draw some conclusions; you'll want to draw others for yourself.
- **The *Inc.* 500 Survey.** The CEOs of this year's ranked companies were queried on a variety of matters; on each page of the 500 list you'll discover the findings. Included among them: an assessment of entrepreneurial obsession; a surprising note of antifamily-business bias; and a vote of confidence in American employees. (The problem is managers, say the CEOs, not the people who work for them.)

The list itself begins on page 57, and on page 53 there's an alphabetical index of the companies that qualified.

This year, as in each of the nine before, we again have unearthed no shortcuts to reaching the 500. You'll spot plenty of managerial tips, true—but there are no surefire business plans or can't-miss entrepreneurial résumés. If that's the bad news, however, then the corresponding good news is that there are *so many* routes to a place on the list. In that most democratic (small *d*) of traditions, you can get there from anywhere. Anyone, doing almost anything, can make the 500. Even in times when the word *recession* seems more and more anxiously linked with the phrase *double dip.*

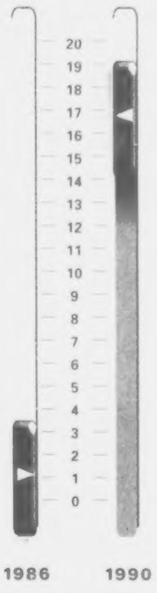
Of course, there's nothing new to seeing some companies achieve hypergrowth during a period of general economic malaise. Just do what Jake Morse, founder of then-18th-ranked Marliss Industries, in Jonesboro, Ark., claimed to be doing about the recession of 1982: "We've chosen not to participate."

Too glib by half? Maybe. But this year again, on the '91 *Inc.* 500, he has a lot of company. ❑

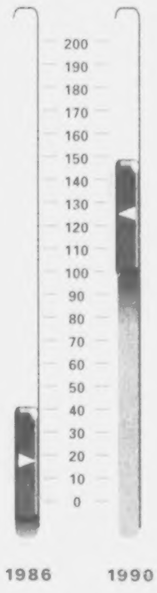


HISTORY OF GROWTH: THE AVERAGE INC. 500 COMPANY

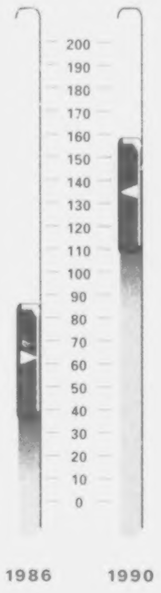
SALES
(In $ Millions)



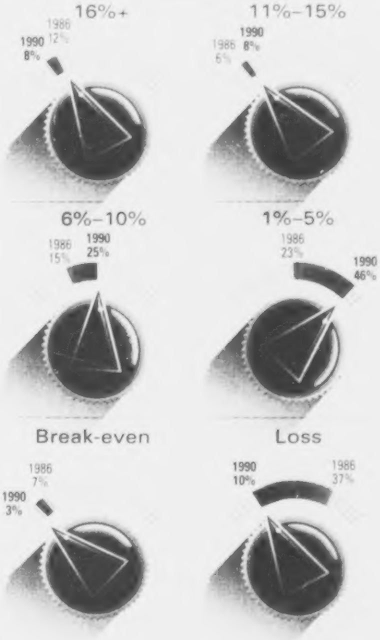
EMPLOYEES



PRODUCTIVITY
(Sales/Employee in $ Thousands)



PROFITABILITY
(Net Income as a Percentage of Sales)



CHARTS: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

'91 COMPANY INC. 500

BETTING THE FARM

Mail-order computer maker Gateway 2000 doesn't offer state-of-the-art technology or provide extraordinary support or run expensive ads—and it *does* have hundreds of furious competitors. So how has it earned the top slot on this year's *Inc.* 500?

BY JOSHUA HYATT

JUST HOW BRUTAL IS THE COMPETITION IN THE PERSONAL-computer business? So brutal that Craig Dwayne's idea of a relaxing holiday weekend is to load his young son and daughter into the family Toyota Forerunner, set out with them and his wife on the 12-hour drive from suburban Chicago to North Sioux City, S. Dak., spend a grand total of 90 minutes there, then reboard and head home.

It's not that Dwayne's company, PC Pros/Touche, couldn't live without its founder and chief executive for longer than that. Rather, it's that Dwayne, whose company sells direct-mail PCs, had set aside the recent holiday weekend for a very personal fact-finding mission. He made the trip only so he might peep through the windows and prowl about the gravel parking lot of a company he considers his nemesis, Gateway 2000. "You have to know what your competition is doing," contends Dwayne, whose company claims annual sales of $35 million. "This is warfare."

If he's planning to battle Gateway, Dwayne had better radio for reinforcements. There is hardly an adjective that would adequately describe Gateway's growth over the past five years. Astounding? Dizzying? Unparalleled? Well, yes, all of those. And also perplexing. From sales of about $1 million in 1986, Gateway has grown to $275 million in 1990—a five-year compounded growth rate of 26,469%—earning it the top spot on this year's *Inc.* 500 (a one-slot promotion from last year). That brings us to the perplexing part: Gateway has grabbed a commanding share of the market for mail-order PCs without offering state-of-the-art technology or even extraordinary support. Gateway's ads are hokey; its name isn't especially catchy. And there are, at last count, some 400 other companies nipping at the same market, from bellwether Dell

Ted Waitt, Gateway 2000's 28-year-old co-founder and CEO

PHOTOGRAPHS: STEVE NIEDORF

FRAGILE
FRAGILE
GATEWAY 2000
GATEWAY 2000
CRYSTALSCAN
CRYSTALSCAN

Since its farmhouse start-up, Gateway has consistently undercut its competitors on price by at least 10%.

Computer to countless contenders that fall into the category that Ted Waitt, Gateway's cofounder and chief executive, dubs "Billy Bob's Bait & Computer Shop."

How on earth has Gateway prevailed?

Dwayne's makeshift investigation—he has carried on so much about Gateway that even his wife wanted to see it—didn't yield many solid answers. After wandering around the shipping and receiving docks, and peering through the windows into Waitt's empty office, Dwayne took out a bunch of the "GateBuster" T-shirts he had designed and put them everywhere he could: he tied them around door handles, laid them on the seats of trucks, and set up a crude mannequin that stood like "a little GateBusters ghost" outside Waitt's office window. "It was exciting to be there and leave gifts," says Dwayne, who is 31. "But I never got a thank-you note."

He never really got what he came for, either. But then the key to Gateway's success isn't really something he could have spied. To be sure, Waitt often answers—or graciously deflects—hard questions about Gateway's growth by pointing out visible symbols. The company's gravel parking lot, for example, serves as testament to its low-overhead religion. "People try to make things more complicated than they are," argues Waitt, clad in deck shoes and a polo shirt. "There's no magic formula. It all revolves around the way we do things."

That sounds like less of an answer than it actually is. Gateway's growth, and Waitt's genius, can't be reduced to just one overwhelming advantage. America's fastest-growing private company got there by managing, practically without exception, to come out on the right side of several dicey gambles. Waitt has gambled on his gut to figure out what customers want; he has gambled on his own taste regarding how best to advertise it to them; and he is gambling on his brain to make sure the company's growth doesn't smother its clearest impulses.

Fueled by that ever-dangerous propellant called instinct, Gateway's speedy trip to the top has left the company at a treacherous intersection. And there are plenty, like Dwayne, who would like to see it crash. "There is a brick wall out there waiting for everybody who grows this fast," notes Arthur Lazere, the 59-year-old chairman of Northgate Computer Systems, another competitor. "It's invisible before you hit it. I don't know what Gateway's brick wall is, but there is going to be one. There always is. Remember, I'm not a 25-year-old kid."

Maybe it's not worth quibbling about, but neither is Ted Waitt. Just for the record, he's 28.

HERE IS AN IMPORTANT difference between Ted Waitt and the Diet Cokes he constantly guzzles: the sodas spend time chilling.

Waitt, on the other hand, is always wired. He pops in and out of his chair, tearing open another carton of Camel Lights, his ponytail bouncing, his dimpled grin flashing. "Ted is very emotionally involved with this business," says his brother, Norman Waitt Jr., who stepped down as vice-president this past March. To picture Ted Waitt, just imagine Woody Harrelson, who plays the bartender on the TV show "Cheers." Except instead of exuding goofy midwestern naiveté, Waitt seems nourished by . . . well, what *is* he on, anyway?

That question naturally spills from the lips of those who attempt to reorient themselves after a journey into Waitt's frenetic inner sanctum. *What is this man on?* A mad ride, for one thing. At only six years of age the precocious company is charging through an exhilarating adolescence. "Gateway is the best show in town," notes Bruce Stephen, director of PC-hardware research at International Data, "and Waitt knows it."

Just when Waitt realized Gateway's

star potential is another question. These days he makes it sound almost plausible that after dropping out of two different colleges, he returned to the family cattle farm in August 1985, intending to take advantage of the low-cost locale to set up a PC operation that would slaughter all comers. More likely, Waitt and his partner, Mike Hammond, slowly discovered that—holy cow!—they could operate on astoundingly low costs. Since day one, Gateway has undercut its competitors on price, consistently by at least 10%. "We can't operate on the margins they are operating on," grumbles Lazere, whose company is based in Eden Prairie, Minn.

But Waitt didn't just put his faith on price to get Gateway off the ground. After his college stints, he spent roughly nine months working at a retail computer store in Des Moines. While there, he began to develop his notion of the "value equation," a pet theory whose name serves as a soothing mantra for Gateway's 1,100 or so employees. Essentially, Waitt says, it comes down to this: "The PC business is not about price, it's about value, or what you can give the customer for his or her money." From what Waitt could see, purveyors of PCs were selling either cheap bare-bones systems that nobody really wanted or computers stuffed with too much technology to be affordable. The middling strategy, he thought, would be "not to add technology for the sake of adding technology, but to go after it when it offers the best value for consumers." Timing was key.

So was holding the line on prices. Before leaving the computer-store job, Waitt stored a relevant observation in his flawless memory: the back room, where salespeople sat at phones. "I was fascinated to see that if you knew what you were doing, you could sell a $3,000 computer system over the phone," says Waitt. "Everybody seemed to be looking at those sales as just gravy." Waitt envisioned a national business that could be launched handsomely using almost exactly the same sum he had saved up. Namely, zero. After all, such a business required little inventory (assuming customers prepaid) and no showroom. And it could be based anywhere—even in the middle of nowhere. Inaugurating the Gateway tradition of low overhead, Waitt took advantage of his father's shrinking cattle brokerage to occupy some empty office space in a farmhouse. Since Waitt was "never a techno-nerd," as he puts it, he brought along Hammond, a fellow salesman who had actually trained him. "He soaked in everything from day one," recalls Hammond, who now serves as Gateway's vice-president of product development.

So there they were, Waitt the marketer and Hammond the technical whiz, living upstairs while they launched a business downstairs. Sometimes their days were framed by the phone ringing with orders: they woke up with it, and they collapsed on their bedsprings when it finally hushed. There were three-day stints when neither one took a bath, which explains why most of their company consisted of two dogs, Jake and Bunky. With one two-legged exception: Norman Waitt Jr., Ted's older brother by nine years. Norm often arrived at the office before his brother or Hammond had even awakened, simply for the spectacle of watching one of them tear down the stairs, buttoning a shirt or pulling on a pair of pants while diving for the ringing phone. But around six months into the new business, in early 1986, Ted got to feeling that maybe he needed his brother's financial skills; he so hated opening bank statements that he had restricted his financial activity to calling the bank and asking about his balance. Norm agreed, but only if he could be an equity-owning partner. So the brothers split the company; Hammond has never owned any stock.

At only six years of age, the precocious company is charging through an exhilarating adolescence. 'Gateway is the best show in town,' says one computer-industry insider, 'and Waitt knows it.'

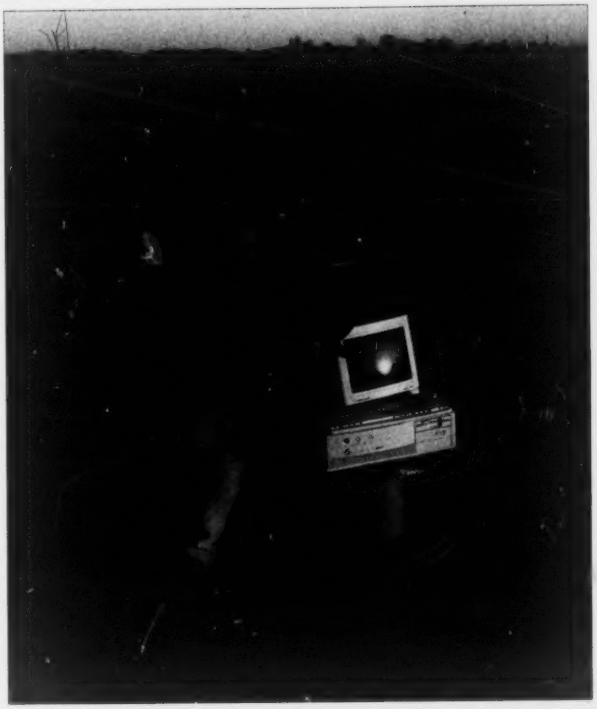
Though Ted Waitt had his sights on selling PCs, that was not the business he and Hammond started in September 1985. Until the end of 1987, they called themselves the TIPC Network—set up as a division of the company Waitt dreamed about starting, Gateway 2000. As such, they sold add-on equipment by mail to owners of PCs made by Texas Instruments. The niche seemed obvious to Waitt: the store where he and Hammond had worked sold Texas Instruments computers but didn't support them in the aftermarket, since the company did not adhere to the industry standard set by IBM. With his phone operation, run from an Iowa farm, Waitt could undercut competitors' prices significantly. Within a few months, the direct-mail venture was bringing in $100,000. That would grow to roughly $1 million a year. And most of the start-up capital came from the $20 membership fee each customer paid.

In 1986 Waitt and Hammond tinkered with assembling some PCs, and they even sold them locally. But in mid-1987, Texas Instruments handed Waitt just the opening he had been hoping for: the company offered its PC users a trade-in program that required them to cough up $3,500 to get an IBM-compatible machine. "We figured we could do the same thing for $1,500," recalls Hammond.

As Hammond scoured computer publications for the best deals on such components as motherboards, monitors, and disk drives, Waitt began to apply his concept of the value equation in deciding what to build. The earliest Gateway model included such amenities as a keyboard with function keys across the top and a separate cursor pad. It had two floppy-disk drives, instead of just one, to accommodate two different sizes of diskettes. The monitor was color, not monochrome; the memory had greater-than-usual capacity. Gateway bundled it all into one fully configured system at one price, $1,995, instead of considering, for example, a hard-disk drive as an extra cost. Competitors offered fewer features at $1,950 or so. "We gave people more for their money," says Waitt.

That, in essence, is the strategy from

which Gateway has never veered. By keeping careful track of costs, and pricing to achieve a fixed margin, Waitt could add newly affordable features and still keep prices down, as other components shuffled along what he calls "the value curve." No matter how technical he makes it sound, though, what Waitt was really doing was gambling on his gut-level ability to divine what his customers wanted. It was he—and he alone—who decided what features mattered. Would customers pay an additional $75 to own a 40-megabyte hard-disk drive? "The first question would always be, Would I buy it?" says Hammond. "Everyone wants smaller, faster, and cheaper. So it's a fairly educated guess." Then Gateway would test the component to see if it performed as the manufacturer promised. From there, says Waitt, "we didn't do a whole lot of market research on it. A lot of it was instinctive."



Waitt's ultra-low-cost South Dakota location is at the core of his mission to minimize overhead.

How good are Waitt's instincts? The company grew from $1 million in 1986, to $1.5 million in 1987—with the boost of the trade-in offer—but sales exploded to $12 million in 1988. Waitt made it clear, though, that he was not about to sacrifice any profitability for the sake of adding overhead. The Waitt brothers did move the business into more spacious quarters, paying $350 monthly rent for 5,000 square feet in Sioux City's 100-year-old Livestock Exchange Building, where they had to sidestep cow manure in the halls. They found they could start employees at $5.50 an hour—in 1988 Gateway began supplementing that figure with a monthly cash bonus based on profits—and turnover was nonexistent. Gateway needed no research-and-development function and no design team, and there was plenty of used furniture around. South Dakota, where Gateway moved in January 1990, collects no income taxes. In a business where margins can expire of emaciation—Gateway's publicly owned competitors report net aftertax profits of no more than 5%—Gateway needed every advantage it could scrounge.

But its greatest advantage, perhaps, was Ted Waitt himself. As his brother notes, "he has an uncanny ability to figure what people will want and how to package it." His biggest mistake so far, selling a disk drive that was ahead of its time, was "expensive, but not catastrophic," he says. It's a balancing act: keeping track of the emerging technology and still lowering prices about a half dozen times a year. "I look at all the information, and I assimilate it in my head," Waitt explains. "Usually, the right answer just pops right up."

Or, as Hammond succinctly explains, "it's kind of a crapshoot."

WITH ALL HIS TALK ABOUT THE VALUE equation, Ted Waitt would have you believe that Gateway got where it is today—1991 sales are projected to hit a boggling $600 million—by giving consumers more for their money. Which is true, sort of. Seymour Merrin, whose company publishes a newsletter covering PC-distribution channels, notes, "They've done a great job of convincing people that they have a great product at a great price."

In most quarters, they call that advertising.

Here, Waitt has gambled on his own idiosyncratic tastes, ignoring advertising conventions. In fact, Gateway's ads have sometimes not even shown its own product.

Back in his retailing days, Waitt had helped enough people shop for PCs to know they wanted to feel that a stable company stood behind the machine. Waitt's positioning trick—and it was masterly—would be to establish Gateway as a trustworthy company that also offered rock-bottom prices. Low-end, but not scary.

The customers who were willing to buy PCs through the mail were a select and sophisticated bunch; usually, they determined the quality and support they needed and then shopped for the best price. To find it, they were willing to risk the hernia-popping experience of lifting—and the eye-numbing experience of leafing through—publications like *Computer Shopper*, which could run to 800-plus large-format pages. Waitt couldn't help noticing that the ads were lacking in sophisticated advertising tools—like, for instance, cows.

Cows? Waitt's first Gateway ads actually featured a picture of his father's cattle herd, with the Sioux City water tower hovering protectively in the background. "Computers from Iowa?" the headline read. Rather than sell the product, the ad—variations of which ran until October 1989—sold Gateway. Waitt knew whom he was selling against; well, not exactly, since ease of entry meant that competitors were always breezing in and out. But many of the clone makers were of questionable reputation, and their long-term intentions fell short of noble. Waitt's copy, which has come to sound like something Tom Bodett might read on those radio ads for Motel Six, established Gateway as a bunch of plain folk who planned on being around awhile. There was some not-so-subtle psychology at work: here was an American product, not one of those no-name Taiwanese or Korean clones, and wouldn't you rather buy from the honest heartland than from either of America's cynical coasts?

Once Waitt felt comfortable that people knew the company's name, he traded the cows in the ads for people—specifically, the Waitt brothers themselves. In early 1990 Waitt hired Barb Gross as advertising manager. Gross, local photographer George Lindblade, and designer Kevin Kjeldseth form the inner circle that brainstorms with Waitt to come up with new ads every two or three months, a pace Waitt considers crucial because "this is a fast-paced, rapidly changing business."

Often, the meetings consist of Waitt throwing out ideas and the others refining them, even as they try to keep Waitt from trying to draw. "His biggest frustration is that he can't draw well," confides Gross. He does come up with clear concepts—often, inexplicably. Once, so jet-lagged he was practically hallucinating, Waitt blurted out a fully formed idea for the "PC Saloon" ad. Eventually shot in Tucson, the July 1990 ad featured an 1890s double-door saloon, where a group of men are playing poker. Waitt, decked out in pinstripes, smirks right into the camera and shows his hand: a royal flush. The others at the table, including a frustrated young man and an older, stodgy businessman, are meant to represent various Gateway competitors. "It was a bit of an in-joke," says Gross. One ad, which featured buffalo, happened to coincide with the release of *Dances with Wolves*, the Kevin Costner movie. Hey, someone suggested at the next brainstorming session, let's find out what Kevin Costner is doing next. When they did, recalls Gross, "I said, 'You absolutely cannot do Robin Hood. He was a thief, for goodness' sake.'"

But she was outnumbered, and Gateway staged its own ad using a Robin Hood theme, with you-know-who casting himself as the champion of the poor. When the ad came out, this past August, it set records for the number of inquiries from new customers, chalking up as many as 2,000 a day. "I was wrong," says Gross. "Ted's gut feelings were right."

Not that Waitt's satisfaction with ads comes from having his hunches reconfirmed. As a man who never wearies of battling overhead, he insists that every ad pay for itself. Anybody who calls the 800 number first is asked, "Where did you hear of Gateway?" Waitt uses the answers as a guide to where he should spend the 2.5% of sales he's committed to marketing. He sticks pretty rigidly to computer magazines and never consults an ad agency. Often, employees serve as models in the ads. As usual, he finds his own ways to cut costs. For one ad, which featured the nifty gimmick of having a photo wink from black-and-white into color, Waitt was outraged when the lowest quote he got amounted to $3 a pop. So he had the ad printed locally and paid church groups, employees on their free time, and temporary workers to assemble it. The ad came in "far under" that original price.

As long as Gateway's telephone operators stay busy, Waitt sticks with his idiosyncratic traditions. He refuses, for instance, to employ reader-response cards, contending that they attract too many people who are just collecting information. He intentionally skimps on technical information because he wants consumers to call in with their questions. There have been ads in which the computers were squint-distanced in the background, in which prices were barely visible, in which there were so many elements, the eye couldn't possibly behold them all. Waitt admits the ads "have alienated people at some times."

But not enough to worry about. By early 1990 sales had risen to $70 million. "We get horrible marks from the marketing-guru types," Waitt says. "But it seems to work."

TED WAITT'S GAMBLES ON HIS UNPREDICTABLE gut and his unorthodox tastes have paid off on a scale that he could hardly have predicted. "I was just hoping this thing would eventually evolve into some kind of business that would provide a good income," says Norm Waitt Jr., who has no operational role but still owns 45% of Gateway.

Remarkably, though, all the

The 11TH Commandment

Thou Shalt Not Pay Retail!
Lds Cartier
18K Panther
Custom Diamonds
Retail $17,300
Special $9,990
SPECTACULAR SAVINGS
AT AMERICA'S FOREMOST
FINE WATCH DISCOUNTER
All famous brands including
Rolex • Patek Philippe • Audemars
Omega • Cartier • Ebel • Chopard
SALES • SERVICE • ACCESSORIES
NEW • PRE-OWNED
No Sales Tax To Out Of State Buyers
DIAMONDS • PEARLS • ESTATE JEWELRY
Call for Shop•At•Home•Brochure
GRAFSTEIN & CO. Estab. 1939
National Mail Order Division
Xerox Towers – 7th floor
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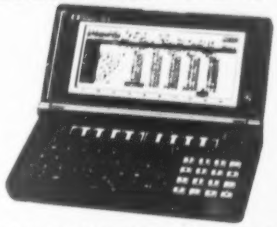
hp HEWLETT PACKARD
PC Power to go
With Lotus® 1-2-3®

Created in collaboration with Lotus Development Corporation. Lets you do spreadsheets, edit memos, access phone numbers and addresses, and make schedules. Exchange information with your desktop PC using the optional connectivity pack. Runs 1 to 2 months on 2 AA batteries. Measures 6.3" x 3.4" x 1" closed.
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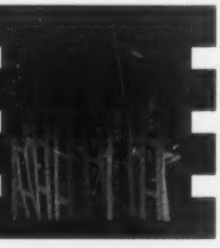
growth-inducing risks Ted Waitt has taken have only forced on him his biggest bet yet: he is gambling that he can think through the implications of Gateway's enormousness fast enough to keep the company flexible. "The biggest challenge for us right now," Waitt says, "is figuring out how to add the necessary bureaucracy without becoming slow moving." The more fundamental question, though, is whether Gateway can adapt its core strategy to grow into a sturdier niche.

Gateway's success has made it a popular target. 'We're coming after them,' vows Michael Dell, founder of $800-million-a-year Dell Computer. 'And we're not exactly Little Bo Peep.'



Gateway's ads do their darnedest to convince consumers that they *ought* to buy based on value—a combination of price and factors such as service and component quality and reliability—but analysts suggest that price carries a disproportionate load of the so-called value equation. "In mail order, the three most important factors are price, price, and price," says David Evancha, director of research at WorkGroup Technologies, a market-research firm specializing in information technology. Gateway has earned industry merit badges in most areas, but price has been its strongest suit. How long before an upstart undercuts the company? It's not hard to imagine, for example, a vertically integrated PC maker from, say, Taiwan, strangling Gateway by living on less. "The pressure on Gateway's margins is never going to abate," says Evancha.

As consumers become even more comfortable with PCs, they may become more willing to dip into no-name cheapies. But snipers aren't just taking shots from the lower end. "The pricing delta is narrowing. We're coming after them," vows Michael Dell, chairman of Dell Computer, which is expected to post nearly $800 million in sales this year. "And we're not exactly Little Bo Peep."

The pioneer in selling cheap computers by phone, Dell says he came to the realization as far back as 1985 that counting on price "becomes a zero-sum game after a while. Those customers are likely to be less loyal. It's hard to sustain a company on that." Dell has since added a sales force to call on the *Fortune* 500 entities and government agencies that provide roughly half of his business; he even sells computers through retail superstores.

Gateway isn't concealing its own desire to penetrate the profitable corporate market. This past fall, its ad depicted starchy executives, brows all a-furrow, huddled around their prized Gateway. Clearly the accompanying slogan, "Because we've stood the test of time," was designed to appeal to the conservative instincts of a corporate type. As of September, four ads Waitt had designed expressly for *BusinessWeek* remained "in limbo," according to Gross. Around that same time, Gateway began releasing some quarterly financial results in press-release form. "People don't realize that Gateway is a real company," says Rick Snyder, executive vice-president. "We don't want people to think we are just a revenue generator."

But changing what people think—and the mix of consumers who buy—is likely to take more than aggressive marketing. "To play in the big-company market," says Evancha, "you have to offer more." For Dell, that meant investing more than $22 million in R&D last year, when sales hit about $550 million. According to Dell, it has also required beefing up support and training. "These companies want the kind of support that is hard to give if you are just assembling product," says Dell. "The trip from what Gateway is to the Dell model is a treacherous road."

Waitt doesn't seem interested in

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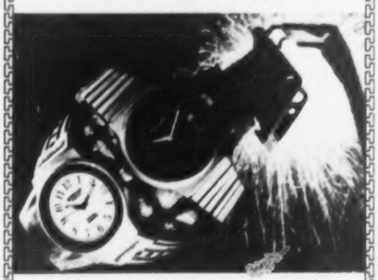

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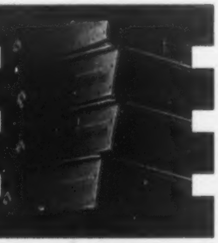
hitching a ride, though. "Our intention is to go after the corporate market without raising our cost of doing business, so we don't have to raise our prices to all our customers," he says. Waitt has no plans to begin developing technology, though he has actively hunted acquisitions. And he suggests that Gateway may begin adding products—such as software and peripherals—to its systems. He claims that Europe offers "tremendous potential for us," though Dell, Compaq Computer, AST Research, and others have established significant beachheads there.

Fueled by that ever-dangerous propellant called instinct, Gateway's speedy trip to the top has left the company at a treacherous intersection. And there are plenty who'd like to see it crash



Waitt—who has recently recruited a half dozen vice-presidents from giants like Digital Equipment, Rockwell International, Texas Instruments, and Coopers & Lybrand—intends to leverage the advantages of size to save money in areas such as purchasing, while at the same time invest cash in projects that should increase efficiency. For instance, he says, "Gateway is spending money to train people and set up proper troubleshooting procedures." Also, last summer Gateway moved its production workers into a 44,000-square-foot facility down the road and reorganized them under a cellular manufacturing plan. Craig Culloton, director of manufacturing, says he expects productivity to increase by at least 30%. And Jerry Mayer, vice-president of operations, notes that the company is moving toward "what is basically a pay-for-knowledge" compensation system.

Once again, Gateway is so far achieving a touchy balance. Back in 1990, for instance, a transitional Dell absorbed a 65% drop in profits. "Every company stumbles at some point," observes Tom Quinlan, hardware editor of *InfoWorld* magazine. "You reach a plateau where you have to make the right choices. And even if you do, it's difficult to move to the next level."

And Gateway can't shimmy like it used to. A 20-member group now scouts out technology; another bunch, the Road Map Group, evaluates options; Waitt meets with his 10 lieutenants every two weeks, in a configuration called the Action Committee. The company has hired a media buyer to help quantify its advertising decisions. And Rob Cheng, director of marketing, now has four people working the phones full-time to ask customers pertinent questions such as "How does this price sit with you?" and "What kind of technology interests you?" "One person can't do it anymore," says Waitt. "We were unknown before, and that was an advantage. Nobody knew who we were, so we snuck up on the competition."

These days the competition is—quite literally—sneaking up on Gateway. But Craig Dwayne, for one, swears he's through slogging out to South Dakota. His latest ruse to gain information involves asking consumers to send him proof they've returned a Gateway computer. They get a free GateBusters T-shirt and become eligible to win a trip to Hawaii. "I learn the serial number and get some idea of what went wrong," says Dwayne. "We'll learn some interesting facts. I'm very serious about Gateway."

And Ted Waitt, in his own way, is serious about Dwayne's company. "We spend as much time looking at companies that are smaller than we are as we do at those that are bigger," he says. "He came here, and that bothers me. It's almost demented, and it did rattle some of our people. But we can't focus on that. Our biggest competitor is ourselves. And that keeps us busy." ❑

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Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range* '90	Profit range* '86	No. of employees '90	No. of employees '86	Date founded
1. Gateway 2000 (2) N. Sioux City, SD Mfrs. & sells PCs	26,469	$275,525	$1,037	C	C	600	4	1985
2. American Megatrends Norcross, GA Designs & mfrs. computer motherboards	23,850	44,786	187	A	F	95	8	1985
3. United Staffing Troy, NY Provides employee-leasing svcs.	19,102	31,300	163	D	F	40	3	1986
4. Technology Works (34) Austin, TX Designs & mfrs. computer memory add-on prods.	17,154	20,187	117	D	F	75	2	1985
5. Rockwell Construction Coral Springs, FL Provides general-contracting svcs.	15,490	16,214	104	D	C	12	2	1986
6. Damark International Minneapolis, MN Operates catalog co.	14,474	193,986	1,331	E	E	500	8	1986
7. Century Offshore Management Lexington, KY Explores & develops oil & gas resources	14,311	27,814	193	A	F	26	6	1986
8. Focus Apparel Group Dallas, TX Mfrs. women's apparel	12,265	15,333	124	D	F	104	12	1986
9. Diamond Flower W. Sacramento, CA Mfrs. & distr. PCs	11,360	23,263	203	D	C	56	10	1985
10. Corporate Express (4) Boulder, CO Distr. office prods.	10,011	35,489	351	F	C	260	23	1985
11. Parexel International Waltham, MA Provides pharmaceutical-research svcs.	9,732	14,748	150	D	F	500	10	1983
12. Leasing Solutions San Jose, CA Leases computer equip.	9,042	9,233	101	F	F	42	12	1986
13. Ehman (39) Evanston, WY Mfrs. & distr. hard drives & monitors	8,722	30,084	341	F	F	134	20	1985
14. WIN Laboratories Manassas, VA Mfrs. microcomputers	8,630	30,555	350	D	F	49	4	1980
15. Educare Community Living Austin, TX Provides long-term health-care svcs.	8,529	10,873	126	D	F	590	2	1986
16. Litle & Co. Salem, NH Provides credit-card-processing svcs.	8,258	31,175	373	C	F	103	3	1986
17. M&R Printing Equipment Glen Ellyn, IL Mfrs. screen-printing equip.	7,982	16,325	202	B	B	128	2	1985
18. Shiva Cambridge, MA Mfrs. & designs internetworking prods.	7,959	16,199	201	C	A	110	3	1985
19. Delta Environmental Consultants St. Paul, MN Provides environ.-consulting svcs.	7,449	32,234	427	D	A	495	12	1986
20. Oil Changers Pleasanton, CA Changes automotive oil & filters	7,367	13,217	177	D	F	272	23	1985
21. Beta Plastics (19) Carlstadt, NJ Mfrs. & distr. polyethylene bags	7,299	15,685	212	D	C	80	28	1985
22. Thomas-Conrad Austin, TX Mfrs. LAN prods.	6,869	24,598	353	D	B	169	3	1985
23. Starpak International (49) Denver, CO Svcs. & fulfills software	6,495	8,310	126	D	D	155	1	1978
24. National Safety Associates (22) Memphis, TN Mfrs. water- & air-filtration systs.	6,196	255,302	4,055	A	F	600	100	1970
25. Maxum Health Dallas, TX Provides diagnostic-imaging svcs.	5,998	27,809	456	F	F	309	28	1986

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break even; F. Loss

INC. 500 SURVEY

THERE'S NO PLACE LIKE HOME

Do you have any international sales?

STEPHEN TYGH

WHILE MANY CEOS REPORT DOING some business overseas, and more are planning on it, most of the companies that made the list this year continue to play strictly on the home field. Sixty percent posted sales that were exclusively domestic. That leaves 40% that are transacting at least some business overseas. Few, however, report more than token sales abroad. For almost half the companies with global ambitions, international sales account for less than 5% of revenues.

The reasons for going less-than-global? Too much business right here at home, CEOs tell us. Companies also cite financing problems, currency fluctuations, shipping costs, language barriers, and foreign regulations as obstacles to selling overseas. "There's a lot of red tape," says Stephen Tygh, CEO of Tygh Silicon (#231), in Pleasanton, Calif. "It's a lot easier for me to sell COD to an import/export firm here than to bother with the hassle of selling overseas myself."

PHOTOGRAPH ROBERT HOLMGREN

Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range* '90	Profit range* '86	No. of employees '90	No. of employees '86	Date founded
26. Employers Resource Richmond, VA Provides co-employment svcs.	5,905%	$23,659	$394	D	F	31	7	1985
27. ANAgraph Costa Mesa, CA Mfrs. electronic systs.	5,884	7,480	125	C	F	54	12	1985
28. Northern Computer Systems Eden Prairie, MN Mfrs. & distr. computer prods.	5,711	9,123	157	D	D	30	2	1986
29. Softworks Development (11) Mequon, WI Distr. computer equip. & integrated systs.	5,677	15,483	268	D	F	35	4	1984
30. Symmetrix Burlington, MA Provides consulting svcs. to finan.-svcs. & mfg. cos.	5,597	10,426	183	D	F	94	10	1986
31. Iconics Foxborough, MA Develops & mfrs. software	5,532	6,026	107	A	F	42	7	1986
32. ICM Norcross, GA Resells value-added computer prods.	5,242	16,453	308	B	F	16	3	1985
33. Apple South Madison, GA Owns & operates Applebee's restaurants	5,238	58,129	1,089	D	E	3,200	146	1978
34. Hanover Energy Dallas, TX Gathers, compresses, & transmits natural gas	5,206	19,899	375	A	F	64	6	1984
35. Personnel Management Shelbyville, IN Provides temporary-help svcs.	5,198	7,311	138	D	D	38	3	1986
36. INSURx Cleveland, OH Manages pharmaceutical benefits plans	5,031	5,593	109	F	F	115	7	1986
37. McBride & Associates (17) Albuquerque, NM Sells computer hardware & software	4,967	16,923	334	D	F	35	2	1985
38. Indeck Energy Services Buffalo Grove, IL Develops & operates cogeneration power plants	4,871	38,028	765	F	F	130	5	1985
39. Earth Care Paper Madison, WI Sells recycled-paper prods.	4,592	4,973	106	D	B	75	3	1983
40. System Connection Orem, UT Mfrs. & distr. computer cables	4,460	5,153	113	C	C	35	1	1985
41. Terra First Vernon, AL Provides hazardous-waste svcs.	4,438	13,115	289	D	F	58	6	1985
42. ProServe Denver, CO Manages institutional food programs	4,323	7,209	163	D	A	450	4	1984
43. Abacus (33) San Francisco, CA Provides computer training & consulting svcs.	4,279	13,749	314	D	C	84	23	1979
44. Corporate Environments of Georgia Atlanta, GA Operates office-furniture dealership	4,258	5,447	125	D	F	20	5	1986
45. CMS Communications Bridgeton, MO Provides telecommunications equip.	4,203	15,062	350	F	A	94	1	1985
46. Walt Klein & Associates Winston-Salem, NC Provides political consulting & PR svcs.	4,152	10,885	256	D	F	28	5	1980
47. Intuit (15) Menlo Park, CA Automates finan. work for small businesses	4,106	33,059	786	B	A	172	6	1983
48. Prescott Nashua, NH Provides construction & engineering svcs.	4,064	4,331	104	C	B	15	3	1984
49. SIR Group (181) Dallas, TX Sells & svcs. insurance	4,037	38,313	926	D	D	120	16	1983
50. Forest Technology Akron, OH Mfrs. & distr. wood fire starters	4,013	5,635	137	C	F	32	1	1985
51. Lepi Enterprises Dresden, OH Removes & disposes of asbestos	3,951	4,335	107	C	F	36	18	1986
52. Critical Care Associates Montclair, NJ Provides nursing referral svcs.	3,924	6,720	167	D	F	10	2	1985
53. Clamshell Buildings Santa Barbara, CA Mfrs. & mkts. relocatable bldgs.	3,891	13,010	326	B	F	15	4	1983
54. CATS Software Palo Alto, CA Provides software-applications svcs.	3,851	7,032	178	E	A	40	3	1986
55. AMBAR (75) Lafayette, LA Provides drilling svcs. to oil industry	3,849	26,929	682	B	D	110	4	1980
56. Real Goods Trading Ukiah, CA Sells energy independence prods.	3,787	4,626	119	D	D	50	1	1986
57. MTX Winslow, IL Mfrs. audio equip.	3,770	27,939	722	C	D	300	100	1981
58. Suntel Services Troy, MI Provides voice & data communications svcs.	3,533	4,360	120	E	B	32	3	1986
59. Reunions Hoffman Estates, IL Organizes high school reunions	3,488	3,588	100	F	F	65	3	1985
60. Tronsoft Santa Barbara, CA Develops & sells business software	3,410	7,616	217	D	D	34	3	1985

* A: 16% or more; B: 11% to 15%; C: 6% to 10%; D: 1% to 5%; E: Break even; F: Loss

INC. 500 SURVEY

PRIVATE LESSONS

Do you have any plans to go public?

DAVID C. LU

WHEN WE SURVEYED INC. 500 companies in 1986, nearly half regarded a public offering as a viable option for cashing out. But our survey of the latest crop of *Inc.* 500 applicants revealed that only 23% harbor any plans at all for going public.

"We saw a lot of companies that went public in the '80s get into trouble with Wall Street and try to go private again," notes David C. Lu, CEO of Diamond Flower Electric Instrument (#9), in West Sacramento, Calif. "We're not desperate for cash, and I'm too young to retire, so why go public?"

Those who are bearish on going public cite a reluctance to surrender control, a discomfort with the personal and financial disclosures required, and an unwillingness to spend their time wooing investors and analysts.

Those who find the public markets more attractive point to the dearth of capital available elsewhere, the liquidity offered by the public markets, and the fact that a public offering might free them to (what else?) start more companies.

PHOTOGRAPH: ANDY FREEBERG

INC. 500 SURVEY

LOGGED ON

Do you use a PC every day for business? A laptop? A car phone?

JACK KENT SR.

THE CEOS RUNNING THIS YEAR'S *Inc.* 500 are one plugged-in bunch. Seventy-three percent of those surveyed confess they use a PC every day for business. Although only a third would admit to taking laptops or notebooks on trips, most wouldn't dream of leaving home without a phone. Seventy-four percent say they have car phones. Fifty-eight percent own mobile phones, though they are loath to use them in public. (Only 26% do.)

For all the tele-mastery these entrepreneurs display, none compares with Jack Kent Sr., CEO of Marine Shale Processors (#476), in St. Rose, La., undisputed winner of this year's Great Communicator Award. In addition to the multiline phone in his office and the phone in his car, Kent keeps a phone in his Lear jet, another in his helicopter, and yet another in his pocket. There's a phone, a fax, and a PC on his boat—it's called *The Office*.

Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range* '90	'86	No. of employees '90	'86	Date founded
61. Hillman Environmental Union, NJ Provides environ.-consulting svcs.	3,381%	$4,700	$135	D	E	65	5	1985
62. Lab Support Canoga Park, CA Provides professional temporary svcs.	3,364	21,509	621	C	F	75	10	1985
63. Standard Technology Rockville, MD Mfrs. & does consulting for plastic parts	3,346	14,647	425	D	D	145	8	1985
64. Incredible Technologies Arlington Heights, IL Designs computer software for entertainment	3,338	5,054	147	C	D	45	3	1985
65. Walton Construction Lenexa, KS Provides full-service contracting svcs.	3,316	60,915	1,783	D	C	204	27	1985
66. McNerney Heintz Barrington, IL Provides health-care-mgmt. svcs.	3,311	6,446	189	C	F	124	8	1985
67. Mortgage Services Redmond, WA Provides mortgage-banking svcs.	3,274	3,745	111	D	F	50	7	1985
68. National Data Products (81) Clearwater, FL Sells value-added computer prods.	3,239	50,192	1,503	D	F	92	7	1982
69. Pleasant Co. Middleton, WI Mkts. children's merchandise	3,156	44,278	1,360	C	F	158	21	1986
70. Trigen Energy (289) White Plains, NY Constructs & acquires energy-prod. facilities	3,152	31,118	957	E	F	176	25	1986
71. Reference Software International (46) San Francisco, CA Develops & publishes writing-improvement software	3,135	9,737	301	C	F	70	3	1985
72. Maier Group New York, NY Sells & mkts. special-interest videotapes	3,120	3,381	105	D	E	15	5	1986
73. Evergreen Environmental Group Crestwood, KY Provides environ.-engineering svcs.	3,120	3,413	106	A	A	26	1	1986
74. Z. Cavaricci Los Angeles, CA Distr. clothing	3,099	142,242	4,446	A	A	250	40	1982
75. Airmax Bensenville, IL Provides airline-transportation-mgmt. svcs.	3,096	11,059	346	D	D	46	13	1986
76. Executive Software (86) Glendale, CA Develops & mkts. systs. software	3,032	13,939	445	B	D	101	8	1981
77. PAI Oak Ridge, TN Provides environ.-consulting svcs.	3,030	5,134	164	C	C	60	3	1983
78. Entre Computer Center of West Allis West Allis, WI Sells & svcs. PCs	2,998	16,200	523	D	D	60	10	1986
79. Remote Control Carlsbad, CA Publishes & develops mgmt. software	2,937	3,158	104	D	F	40	2	1985
80. Peripheral Land (104) Fremont, CA Integrates mass-storage prods. for microcomputers	2,924	18,658	617	D	E	85	3	1985
81. Matrix International Logistics Alexandria, VA Provides int'l. shipping svcs.	2,922	16,862	558	D	F	65	8	1986
82. DAZSER Tampa, FL Subfranchises commercial-cleaning svcs.	2,820	4,351	149	C	A	15	3	1986
83. Logic Automation Beaverton, OR Supplies software to electronics industry	2,810	12,310	423	B	F	111	24	1984
84. Deneba Systems Miami, FL Publishes & develops Macintosh software	2,743	5,402	190	A	A	45	0	1986
85. Aztech Controls Mesa, AZ Distr. industrial valves & fittings	2,737	3,518	124	D	F	20	3	1986
86. Fanamation Compton, CA Develops & mkts. measuring software	2,734	4,818	170	F	F	48	5	1985
87. Impact Printhead Services Austin, TX Refurbishes dot-matrix printers	2,720	5,047	179	C	C	95	2	1984
88. TankTest Marlton, NJ Installs & tests underground tanks	2,713	4,922	175	D	A	35	3	1985
89. Electronic Environments Westwood, MA Provides facility support svcs.	2,682	6,149	221	D	F	38	2	1986
90. Dickens Data Systems (227) Norcross, GA Mfrs. & integrates computer periph.	2,662	30,129	1,091	C	D	86	17	1981
91. OSP Consultants (18) Sterling, VA Provides telecommunication svcs.	2,588	28,246	1,051	D	A	417	13	1984
92. National Electronics Warranty Sterling, VA Administers fully insured extended warranties	2,574	10,938	409	D	F	65	5	1983
93. Blueline Software Minneapolis, MN Develops & mkts. systs. software	2,574	6,979	261	C	F	57	24	1985
94. Micro Information Services Mequon, WI Provides computer-networking svcs.	2,538	2,638	100	D	D	15	2	1983
95. Comp USA (47) Dallas, TX Sells PC hardware, software, & periph.	2,459	300,355	11,739	D	D	1,000	10	1984

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: MICHAEL TERRANOVA

INC. 500 SURVEY

NOT AT ALL IN THE FAMILY

Do you think of your business as a family business?

MARILYN SCHULMAN

A CONSIDERABLE MAJORITY (73%) of CEOs responded no. This, despite the fact that nearly half (44%) have relatives working for them. Their responses suggest a distaste more for the image of a family business than for the reality. Ken Wells, who founded Key Construction (#367), in Wichita, with his brother, wanted none of the perceived nepotism that he says clouds a family business and drives away talented outsiders. "Other employees don't feel they have real opportunity in a family business. They see no chance for growth in a company where upper-level positions are a birthright for relatives."

To companies such as Van Mar (#219), in East Brunswick, N.J., there is no tarnish to being family-run. In fact, there are clear advantages, strategic as well as personal. "We literally eat, sleep, and live this business," says Marilyn Schulman, whose husband and two sons share her passion for their lingerie company. "I don't have to worry about it alone."

Company (1990 rank) **Business description**	**Sales growth 1986-90 % increase**	**'90 sales ($000)**	**'86 sales ($000)**	**Profit range* '90**	**'86**	**No. of employees '90**	**'86**	**Date founded**
96. Triple S Beckley, WV Provides construction svcs. for mining industry	2,417%	$3,423	$136	D	F	30	2	1978
97. Milner Electrical Lexington, KY Provides electrical-contracting svcs.	2,404	10,516	420	C	F	210	8	1986
98. Electronic Label Tech Tulsa, OK Sells bar-code-printing systs.	2,396	12,579	504	C	F	53	3	1985
99. Cutchall Management Omaha, NE Owns & operates restaurants	2,392	2,741	110	D	B	50	12	1986
100. Cascade Controls Sunnyvale, CA Provides instrumentation-contracting svcs.	2,374	7,769	314	D	F	28	3	1986
101. Phoenix Controls Newton, MA Mfrs. lab air-flow controls	2,344	5,597	229	F	F	64	7	1985
102. Micro Technology (193) Anaheim, CA Mfrs. network-mgmt. software	2,340	82,678	3,388	B	D	360	25	1979
103. Response Nursing Services Sherman Oaks, CA Places home health-care personnel	2,317	4,181	173	D	F	30	4	1986
104. Gym Management Albany, CA Operates fitness clubs	2,302	5,668	236	A	E	57	4	1985
105. Melaleuca (37) Idaho Falls, ID Mkts. pharmaceuticals & personal-care prods.	2,297	29,553	1,233	A	D	136	20	1985
106. Interactive Devel. Environments (58) San Francisco, CA Develops & sells CASE software	2,276	17,098	719	C	C	129	11	1983
107. Intelligent Medical Systems Carlsbad, CA Mfrs. infrared medical thermometers	2,264	7,847	332	A	F	85	9	1986
108. Horizon Data (84) Reston, VA Provides computer-systs.-integration svcs.	2,240	8,799	376	D	A	48	5	1983
109. QUALCOMM San Diego, CA Mfrs. communication systs.	2,202	46,500	2,020	F	F	436	50	1985
110. Digital Systems Consultants St. Louis, MO Provides software svcs.	2,168	6,373	281	D	A	105	5	1985
111. Advanced Office Interiors Omaha, NE Provides construction svcs.	2,163	5,703	252	D	C	21	6	1985
112. National Contract Staffing Las Vegas, NV Provides employee-leasing svcs.	2,149	17,993	800	D	F	16	3	1985
113. U.S. Computer Maintenance Bellmore, NY Provides computer on-site-maintenance svcs.	2,146	2,853	127	B	D	35	5	1986
114. Access Capital New York, NY Finances small businesses	2,140	3,472	155	A	F	21	2	1986
115. Pioneer General Contractors Amarillo, TX Provides general-contracting svcs.	2,103	10,025	455	D	F	47	3	1982
116. Tech Sales Fort Wayne, IN Builds material-recovery facilities	2,095	4,742	216	D	E	6	2	1985
117. Sun Financial Group Tampa, FL Provides asset-mgmt. svcs.	2,095	26,780	1,220	D	B	40	7	1981
118. Plus Marketing Detroit, MI Distr. wholesale food prods.	2,083	12,353	566	D	D	28	3	1985
119. Impostors Copy Jewelry (129) S. San Francisco, CA Sells costume jewelry	2,080	15,000	688	C	B	130	5	1985
120. Catalina Marketing Anaheim, CA Provides checkout-coupon svcs.	2,062	28,100	1,300	D	F	194	40	1983
121. Baseball Card World Anderson, IN Mfrs. vinyl sheets for baseball-card storage	2,054	13,894	645	A	D	63	2	1981
122. B&V Technology Idaho Falls, ID Mfrs. pharmaceutical & home-care prods.	2,047	4,036	188	A	F	46	15	1981
123. Teltech Resource Network Minneapolis, MN Provides tech.-info. svcs.	2,037	8,421	394	F	F	112	26	1984
124. Centracor Neenah, WI Mfrs. & distr. shipping prods.	2,035	4,463	209	C	C	43	12	1986
125. Ward Petroleum Enid, OK Explores & mkts. natural gas & related oil prods.	2,035	92,427	4,330	D	B	84	70	1971
126. Microtest (273) Phoenix, AZ Develops & mkts. LAN prods.	2,030	9,860	463	A	D	78	10	1984
127. Adcom Norcross, GA Provides data-communication networking equip.	2,028	18,580	873	C	F	71	9	1985
128. Home Care Affiliates Louisville, KY Provides home health-care svcs.	2,017	21,744	1,027	D	F	230	28	1986
129. Atlantic Travel Agency Daytona Beach Shores, FL Operates travel agency	2,010	3,102	147	F	F	26	3	1986
130. Three Springs Huntsville, AL Operates treatment programs for disturbed children	1,990	3,302	158	D	F	81	7	1985

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: CHRISS WADE

Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range*		No. of employees		Date founded
				'90	'86	'90	'86	
131. Field Brothers Construction Marion, OH Provides general-contracting svcs.	1,990%	$8,422	$403	C	B	120	15	1975
132. Southern Audio Services Baton Rouge, LA Mfrs. car audio equip.	1,989	6,477	310	C	F	60	9	1983
133. Hydro-Environmental Technologies Acton, MA Provides environ.-consulting svcs.	1,963	3,446	167	C	B	30	3	1986
134. Hertzberg Rare Coin Investments (56) Tacoma, WA Buys & sells rare coins	1,962	14,973	726	C	C	8	1	1984
135. Ethix Beaverton, OR Provides health-care-mgmt. svcs.	1,961	9,729	472	D	F	236	18	1982
136. Triax Communications (180) Denver, CO Operates cable-television systs.	1,959	88,365	4,292	F	F	461	141	1982
137. Micon Phoenix, AZ Provides info.-systs.-consulting svcs.	1,954	2,814	137	C	C	35	3	1986
138. H.J. Ford Associates Arlington, VA Provides systs.-engineering consulting svcs.	1,952	4,474	218	C	D	57	1	1981
139. R.O.W. Sciences Rockville, MD Provides health & biomedical svcs.	1,938	11,086	544	D	F	250	4	1983
140. Payroll 1 Royal Oak, MI Provides payroll svcs.	1,914	2,558	127	C	F	70	8	1986
141. SMTEK Newbury Park, CA Designs & mfrs. electronic modules	1,851	8,057	413	D	B	75	7	1986
142. Environmental Instrumentation Concord, CA Sells environ. instruments	1,838	5,716	295	D	A	26	0	1986
143. CompuDraft Glenmoore, PA Provides computer-aided-design svcs.	1,827	2,254	117	B	F	36	2	1985
144. Computer Graphics Distributing Gaithersburg, MD Distr. computer-graphics hardware	1,817	7,285	380	D	D	13	2	1986
145. Hernandez Engineering Houston, TX Provides safety & tech. support svcs.	1,815	13,942	728	D	C	190	5	1983
146. FourGen Software Edmonds, WA Develops & sells accounting software	1,813	3,367	176	D	F	66	10	1982
147. Cencom Cable Associates (173) St. Louis, MO Manages cable-television systs.	1,800	64,346	3,387	F	F	1,320	500	1982
148. Metro Ride Minneapolis, MN Provides specialized transportation svcs.	1,796	5,554	293	D	F	157	20	1986
149. Physical Optics Torrance, CA Researches optics & optoelectronics	1,795	5,305	280	D	F	80	3	1985
150. David Mitchell & Associates St. Paul, MN Provides computer-consulting svcs.	1,794	4,129	218	C	C	79	3	1984
151. Adcom N. Pompano Beach, FL Mkts. & svcs. facsimile equip.	1,793	2,082	110	D	E	21	2	1986
152. Oakville Forest Products Oakville, WA Dries & chips lumber	1,787	4,812	255	D	F	16	5	1986
153. Icon International (20) New York, NY Provides domestic & int'l. bartering svcs.	1,771	20,791	1,111	D	F	20	3	1985
154. PPOM (40) Southfield, MI Provides PPO health-care svcs.	1,769	9,045	484	D	D	87	13	1982
155. Pueblo Broadcasting (120) Houston, TX Provides Spanish-language broadcasting	1,752	8,131	439	E	C	60	9	1976
156. Gupta Technologies (133) Menlo Park, CA Develops & distr. database-mgmt. systs.	1,744	12,114	657	F	C	135	8	1984
157. American Teleconferencing Svcs. Overland Park, KS Provides conference-call svcs.	1,738	2,923	159	C	F	38	3	1984
158. MWW/Strategic Communications River Edge, NJ Provides PR svcs.	1,732	2,601	142	A	C	25	2	1986
159. Acumos Foster City, CA Mfrs. electronic components	1,724	10,686	586	C	C	80	4	1983
160. Pro Image Bountiful, UT Franchises licensed-sports-prods. stores	1,714	6,076	335	C	C	30	6	1985
161. Loan Pricing New York, NY Provides finan. info. to loan mkts.	1,706	2,727	151	F	F	37	3	1985
162. Oreman Sales (190) Kenner, LA Distr. computer hardware & accessories	1,703	59,669	3,310	D	D	57	8	1980
163. Apogee Research Bethesda, MD Provides finan.-consulting svcs.	1,684	2,301	129	D	F	33	5	1986
164. DGR St. Petersburg, FL Mfrs. intraocular lenses	1,681	3,793	213	A	F	60	5	1985
165. Recom Technologies (153) San Jose, CA Provides engineering & info.-systs. svcs.	1,676	7,123	401	D	D	110	8	1980

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

INC. 500 SURVEY

TIME IS ON THEIR SIDE

Do entrepreneurs work too hard?

KEN RYAN

CEOS EXPRESS RELIEF AND FAINT regret that their businesses consume less of their time as time goes by. All have stories to share about how hard and how long and how happily they had worked in the early days. "There were times when I slept on the floor by the phone so as not to miss a call," recalls Ken Ryan, CEO of Airmax (#75), in Bensenville, Ill. Now that his company is "gradually growing up," he's less prone to spending weekends and every night at the office, although he may always, he says, have the feeling that he's never doing enough.

Whereas 66% remember working at least 70 hours a week when they started, only 13% say they are doing so now. The distribution of their labors—then and now—follows:

No. of hours worked per week	Percentage of CEOs that work/worked those hours	
	now	when starting
Fewer than 30	1%	3%
30–40	6	0
41–50	15	4
51–60	40	16
61–70	24	12
71–80	8	26
More than 80	5	40

PHOTOGRAPH: LEWIS TOBY

Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range* '90	Profit range* '86	No. of employees '90	No. of employees '86	Date founded
166. Efficient Field Service N. Chelmsford, MA Provides computer-maintenance svcs	1,675%	$2,112	$119	F	F	17	6	1985
167. Groundwater & Environmental Services Exton, PA Provides environ.-consulting & -contracting svcs	1,663	4,848	275	F	D	109	12	1985
168. Berne Group (36) New Braunfels, TX Owns & operates fast-food restaurants	1,648	22,900	1,310	E	F	1,000	105	1985
169. Comprehensive Technologies Int'l. (16) Chantilly, VA Provides military- & logistics-engineering svcs.	1,633	19,727	1,138	D	D	325	47	1980
170. Nature's Recipe Pet Foods Corona, CA Mfrs. specialty pet foods	1,624	16,841	977	B	A	28	4	1981
171. Artisoft (119) Tucson, AZ Mfrs. network hardware & software prods	1,609	41,100	2,405	A	A	138	5	1982
172. Modern Technologies (83) Dayton, OH Provides tech. svcs	1,605	19,024	1,116	C	C	385	50	1984
173. J.A.M.S. (243) Orange, CA Provides dispute-resolution svcs.	1,603	16,299	957	F	F	100	4	1979
174. Oldenburg Group (26) Milwaukee, WI Mfrs. & distr. mining equip	1,600	165,303	9,725	D	D	1,200	212	1943
175. Waszily & Associates Solon, OH Provides contract & consulting engineering svcs	1,587	1,805	107	D	C	63	10	1986
176. Ranpac Engineering (192) Temecula, CA Provides civil-engineering & architectural svcs	1,568	14,513	870	D	D	175	10	1979
177. Franklin Int'l. Institute (151) Salt Lake City, UT Produces time-mgmt. seminars & prods	1,562	51,567	3,102	C	D	513	48	1984
178. Medi Center (438) Lawton, OK Operates primary-care medical centers	1,557	8,138	491	A	A	78	7	1984
179. Porter McLeod (103) Denver, CO Provides general-contracting svcs	1,544	29,330	1,784	E	D	200	15	1985
180. Power-Tek Farmington Hills, MI Integrates engine dynamometer controls	1,538	3,457	211	B	A	30	2	1984
181. Control Solutions (202) Pasadena, TX Distr. pest-control prods.	1,532	4,439	272	F	F	22	4	1985
182. System Innovators Maitland, FL Provides cashiering systs. to govt. & utilities	1,524	3,882	239	D	F	27	3	1980
183. Salem Screen Printers (216) Salem, NH Mfrs. & distr. printed sportswear	1,522	48,467	2,988	C	D	317	49	1980
184. RazorSoft International (479) Oklahoma City, OK Develops & publishes video games	1,518	9,403	581	D	D	24	6	1984
185. Gulf Coast Hair Care Panama City, FL Operates hair-care salons	1,517	1,649	102	C	F	82	7	1985
186. Aladdin Steel Products Colville, WA Mfrs. solid-fuel heating appliances	1,516	5,011	310	B	B	70	11	1979
187. City-Wide Discount Office Supply Phoenix, AZ Distr. office supplies	1,497	8,322	521	D	F	76	8	1986
188. A.M. Express (281) Escanaba, MI Provides trucking svcs.	1,493	1,673	105	D	B	26	3	1985
189. Ameritherm Scottsville, NY Mfrs. induction heating systs.	1,490	2,003	126	C	F	24	8	1986
190. Marketing Profiles Maitland, FL Develops & mkts. software packages	1,487	6,204	391	C	F	45	4	1984
191. Creative Marketing Incentives San Francisco, CA Manages corporate events	1,482	24,702	1,561	D	F	72	7	1986
192. Consolidated Food Management (413) Winter Park, FL Mfrs. pasta & sauces	1,470	3,078	196	F	F	40	10	1984
193. Reprints Carlsbad, CA Provides commercial printing svcs.	1,469	5,948	379	D	D	65	3	1985
194. Chums (420) Hurricane, UT Mfrs. eyeglass retainers	1,467	2,664	170	D	F	65	4	1983
195. Advanced Systems Technology Atlanta, GA Provides engineering, scientific, & tech. svcs.	1,463	7,489	479	D	C	97	2	1981
196. Hawthorne Educational Services Columbia, MO Develops & publishes educational materials	1,460	1,888	121	A	C	9	1	1984
197. Traveling Software (41) Bothell, WA Develops computer-software prods.	1,457	14,218	913	F	D	90	15	1982
198. Chico's (106) Fort Myers, FL Mfrs. & sells women's apparel	1,454	16,274	1,047	F	A	325	20	1983
199. JJW Construction (228) Plantation, FL Provides general-contracting svcs.	1,451	46,808	3,017	C	E	305	41	1984
200. Allen-Ashley (87) Evergreen, AL Mfrs. raised-roof vans	1,451	5,490	354	C	D	45	10	1983

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

INC. 500 SURVEY

PAR FOR THE COURSE

Is playing golf important to your business?

JOHN KOJAK

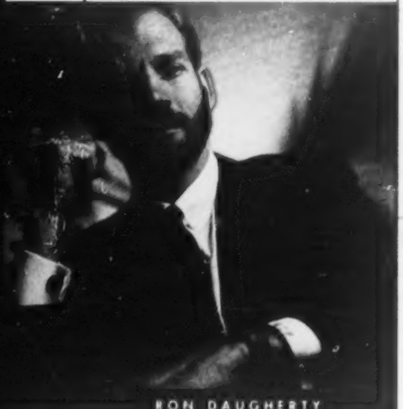
DON'T LOOK FOR THESE CEOS crowding the fairways. You won't find many closing deals on the ninth hole. Although all report entertaining clients on expense accounts, only 23% who answered our survey say playing golf is important to their business. There is nothing wrong with wining and dining customers, they unanimously agree, but who has time to play golf in the middle of the day? Corporate mavericks like John Kojak even defend an inalienable right *not* to play golf. "I left the last company I worked for because they told me I had to play golf," says Kojak, the founder of Phoenix Millwork & Manufacturing (#428), in Beaumont, Tex. Most CEOs, however, see nothing wrong with wooing customers on the golf course, even if they have little time for it themselves. "It's a very civilized way to get acquainted with clients," says L.O. Ward of Ward Petroleum (#125), in Enid, Okla.

PHOTOGRAPH: PAM FRANCIS

INC. 500 SURVEY

WIMPS OR WHAT?

Are today's workers losing the work ethic?



RON DAUGHERTY

IF THERE'S A PRODUCTIVITY problem in this country, don't blame the employees working on the line. U.S. workers aren't wimps. U.S. managers are. That's what more than two-thirds of the CEOs surveyed tell us, in a surprising critique of corporate leadership. Sixty-four percent say their employees don't want too much; 70% say employees aren't losing their work ethic; and 68% say employees don't deserve to have their bosses ride them harder. Instead, what U.S. companies need to compete is better leadership. "Mediocre management is epidemic," says Ron Daugherty of Digital Systems Consultants (#110), in St. Louis. "The problem is that managers often fail to give clear direction and show how success will be measured." Maybe the demands of fast growth have made these CEOs more appreciative and empathetic. "When bosses perform all the tasks in the business, they learn what it's like for an employee," says Jack Robinson, CEO of Nutech Laundry & Textiles (#457), in Hyattsville, Md.

Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range*		No. of employees		Date founded
				'90	'86	'90	'86	
201. Intech Construction Philadelphia, PA Provides general-contracting svcs.	1,447%	$23,634	$1,528	C	D	33	15	1986
202. Partnership Group (159) Lansdale, PA Provides child- & elder-care referral svcs.	1,443	5,693	369	D	F	50	10	1982
203. Energy Dynamics New Berlin, WI Mfrs. electric generators	1,428	7,994	523	D	C	30	0	1984
204. Digidesign (315) Menlo Park, CA Designs & mfrs. digital & audio recording systs.	1,423	9,685	636	B	B	56	7	1984
205. Drennen Forestry Services (231) Blount Springs, AL Provides forestry-mgmt. contracting svcs.	1,422	5,221	343	F	F	40	7	1983
206. AccSys Technology Pleasanton, CA Mfrs. linear accelerator systs.	1,415	2,605	172	D	D	19	4	1985
207. Thomas Publications Dallas, TX Publishes magazines	1,413	4,963	328	D	B	20	3	1986
208. Cardboard Gold Santa Ana, CA Distr. sports-collectible accessories	1,412	5,774	382	D	D	17	2	1985
209. New York Style Bagel Chip (50) Skillman, NJ Mfrs. bagel & pita chips	1,401	16,138	1,075	D	D	200	3	1985
210. Trident Systems Fairfax, VA Provides computer-engineering prods. & svcs.	1,394	1,823	122	D	C	18	4	1985
211. Advantage Business Systems Melville, NY Provides office automation & accounting systs.	1,393	1,672	112	D	F	21	5	1986
212. Mid-States Technical Staffing Svcs. Bettendorf, IA Provides engineering & tech. svcs.	1,384	4,644	313	C	D	18	1	1986
213. Octocom Systems (9) Wilmington, MA Mfrs. data-communications systs.	1,381	26,649	1,799	C	F	144	22	1984
214. Knowledge Systems Cary, NC Provides object tech. software svcs.	1,380	1,524	103	A	E	19	2	1986
215. IMRS (427) Stamford, CT Provides software solutions for corporate mgmt.	1,379	24,761	1,674	C	D	183	18	1981
216. SWFTE International Hockessin, DE Develops & mkts. software	1,372	2,002	136	A	E	12	2	1983
217. Eastern Group Alexandria, VA Explores & mkts. natural gas & oil	1,360	41,983	2,875	C	A	80	20	1981
218. CITA Technologies (35) Emmaus, PA Sells computer hardware	1,358	12,935	887	D	E	49	8	1985
219. Van Mar East Brunswick, NJ Sells women's imported intimate apparel	1,357	24,052	1,651	D	D	125	12	1980
220. Fecek & Borchard Consulting Auburn Hills, MI Provides computer-consulting svcs.	1,350	2,204	152	D	C	27	2	1985
221. Seaboard Mechanical Richmond, VA Repairs commercial refrigeration	1,345	3,888	269	D	C	66	14	1983
222. Sonetics Portland, OR Mfrs. headsets & intercoms	1,343	2,598	180	D	A	22	2	1983
223. MMI of Mississippi Crystal Springs, MS Mfrs. medical equip.	1,339	2,302	160	A	C	14	1	1986
224. TRI-COR Industries Landover, MD Provides software & systs.-engineering svcs.	1,334	8,804	614	C	D	110	15	1983
225. Plourde Computer Services (204) Livermore, CA Develops point-of-sale software	1,327	7,906	554	C	D	48	9	1983
226. Preferred Printing Services South Windsor, CT Distr. custom-printing prods.	1,326	1,782	125	D	F	7	1	1986
227. Richard Michael Group Chicago, IL Provides permanent- & temporary-placement svcs.	1,323	3,813	268	B	A	31	2	1985
228. Richard D. Poole York, PA Provides general-contracting svcs.	1,323	31,794	2,235	D	D	130	10	1985
229. Auto-Soft Bountiful, UT Provides material-handling mfg. automation	1,308	3,801	270	B	B	45	5	1985
230. Gale Group (287) Apopka, FL Mfrs. lawn & garden prods.	1,301	36,669	2,618	F	D	395	39	1981
231. Tygh Silicon Pleasanton, CA Sells materials & svcs. to semiconductor industry	1,294	3,151	226	A	A	9	3	1986
232. Routing Technology Software (319) Vienna, VA Develops & mkts. routing software	1,292	5,178	372	A	F	48	7	1983
233. Roux Associates Huntington, NY Provides environ. consulting & mgmt. svcs.	1,291	11,194	805	D	F	117	18	1981
234. Barclays Law Publishers S. San Francisco, CA Provides new law info. prods. & svcs.	1,285	4,917	355	A	F	40	6	1984
235. Megasource Birmingham, MI Provides computer support to health-care industry	1,282	4,119	298	C	F	46	9	1983

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: MARK KATZMAN

INC. 500 SURVEY

ATTITUDE ADJUSTMENTS

Have attitudes changed about the importance of small companies?

MIKE FROST

SIXTY PERCENT OF THE CEOS surveyed say that, no question about it, the status of small companies isn't what it used to be. They report being treated differently by government, by large companies, and by banks. But the question remains: are the changes for better or worse?

One-third say they detect a new attitude in government, but they can't agree on whether there has been an improvement. In contrast, more than half indicate that big companies' attitudes toward smaller partners have improved. As a result, it's easier doing business with the *Fortune* 500, they say. When it comes to banks, alas, the love—if it ever existed—has long grown cold. A disappointed majority (78%) complain that banks have turned sour on small companies. That's been true even for profitable, $20-million companies such as Technology Works (#4). Of course, calling (Austin) Texas home doesn't help matters. CEO Mike Frost uses one word to describe the status of small-business banking there: "Nonexistent."

	Company (1990 rank) Business description	Sales growth 1986–90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range* '90	Profit range* '86	No. of employees '90	No. of employees '86	Date founded
236.	**Commonwealth** Cincinnati, OH Provides public warehouse svcs.	1,281%	$2,748	$199	D	A	40	3	1985
237.	**Idelman Telemarketing** Omaha, NE Provides telemarketing svcs.	1,276	55,923	4,065	C	C	4,200	850	1986
238.	**Welcom Software Technology** (139) Houston, TX Provides software for PCs, DEC, VAX, & Macintosh	1,273	12,222	890	C	C	107	11	1984
239.	**Apex Computer** (162) Redmond, WA Provides svcs. for Sun workstation users	1,272	13,379	975	C	A	115	13	1985
240.	**DUAL & Associates** (14) Arlington, VA Provides support svcs. & contract mfg. to govt	1,271	19,378	1,413	D	D	225	50	1983
241.	**Directed Electronics** San Marcos, CA Mfrs. automotive-security prods.	1,264	27,631	2,025	C	D	89	35	1986
242.	**MRI Manufacturing & Research** Tucson, AZ Mfrs. medical silicone catheters	1,263	1,949	143	C	C	65	10	1986
243.	**GET Travel** Walnut Creek, CA Provides travel svcs.	1,257	1,683	124	D	F	11	2	1985
244.	**MVM** Falls Church, VA Provides security & investigative svcs.	1,256	17,834	1,315	D	C	600	15	1979
245.	**Micro Dynamics** Silver Springs, MD Develops & mkts. computer-imaging prods.	1,255	5,759	425	C	E	50	10	1985
246.	**Questron** Auburn Hills, MI Designs & mfrs. electrical-engineering systs.	1,253	1,556	115	A	A	25	2	1986
247.	**Scientech** (118) Idaho Falls, ID Provides engineering & mgmt. svcs.	1,252	17,357	1,284	C	B	139	7	1983
248.	**Associated Physicians Management** Hoffman Estates, IL Manages medical-malpractice-insurance co.	1,251	2,729	202	B	F	19	4	1985
249.	**Software Moguls** Eden Prairie, MN Develops software on UNIX platforms	1,251	1,729	128	B	D	10	2	1986
250.	**Advanced Computer Systems** Fairfax, VA Provides professional & tech. svcs.	1,250	4,211	312	D	E	100	6	1982
251.	**Texxon Enterprises** Duncanville, TX Operates roof service & supply co.	1,248	4,286	318	B	B	29	3	1985
252.	**Ram Technologies** Ashland, KY Provides communication svcs.	1,234	2,615	196	C	C	50	5	1976
253.	**Tri-County Security** (212) Ferndale, MI Provides security & investigative svcs.	1,233	4,385	329	C	D	419	97	1984
254.	**Brooktrout Technology** Needham, MA Develops & mfrs. electronic messaging systs.	1,232	5,662	425	F	F	36	11	1984
255.	**First Benefit** Anderson, IN Administers employee-benefits plans	1,231	3,819	287	D	A	115	3	1985
256.	**Athletic Fitters** (267) Eden Prairie, MN Owns athletic-footwear stores	1,230	5,415	407	B	A	31	4	1983
257.	**Am-Pro Protective Agency** (257) Columbia, SC Provides security svcs.	1,228	29,208	2,200	D	D	1,035	180	1982
258.	**Statistica** Clarksville, MD Engineers software	1,219	24,153	1,831	D	D	256	55	1977
259.	**Carl Thompson Associates** Boulder, CO Provides investor, PR, & advertising svcs.	1,218	1,582	120	C	F	26	3	1985
260.	**Chevelle Classics** Huntington Beach, CA Distr. auto parts & accessories	1,213	4,977	379	B	E	38	4	1985
261.	**Stewart Graphics** Jeffersonville, IN Provides volume purchasing svcs.	1,213	3,164	241	D	D	21	3	1986
262.	**ADA Technologies** Englewood, CO Provides environ.-engineering svcs.	1,209	1,832	140	C	F	20	1	1985
263.	**Accurate Information Systems** S. Plainfield, NJ Provides systs.-integration svcs.	1,202	18,229	1,400	D	D	110	15	1983
264.	**System Resources** Burlington, MA Provides high-tech svcs.	1,200	8,557	658	B	D	92	9	1985
265.	**D.A. Campbell** Santa Monica, CA Operates institutional stock-brokerage firm	1,199	4,936	380	D	A	20	3	1965
266.	**Custom Window Systems** Ocala, FL Mfrs. custom screen room enclosures	1,196	2,047	158	C	F	38	9	1986
267.	**Entek** (342) Alexandria, VA Provides engineering & high-tech svcs.	1,191	7,435	576	D	D	68	10	1980
268.	**InfoSource** Winter Park, FL Mfrs. computer-training software	1,185	1,401	109	D	F	35	2	1983
269.	**Mastersoft** Scottsdale, AZ Develops & publishes software	1,180	1,434	112	B	F	11	3	1986
270.	**Morningstar** (471) Chicago, IL Publishes finan. info.	1,178	2,351	184	C	F	35	7	1984

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: WILL VAN OVERBEEK

INC. 500 SURVEY

QUOTATIONS FROM THE CHAIRMEN

As chairman of General Motors, what's the first thing you'd do?

JIM MILLER

WHEN WE PUT THAT QUESTION to our *Inc.* 500 CEOs, most answered decisively:

"Put on a suit. I've never worn a suit."

—JIM MILLER,
THE RIGGING CO. (#385),
PORTSMOUTH, R.I.

"I wouldn't close any plants in Flint, Michigan."

—MIKE FROST,
TECHNOLOGY WORKS (#4),
AUSTIN, TEX.

"Resign."

—THOMAS CASTEN,
TRIGEN ENERGY (#70),
WHITE PLAINS, N.Y.

"Test-drive the latest Corvette on the track."

—WILLIAM DOLAN,
TANKTEST (#88),
MARLTON, N.J.

"Commit suicide."

—JIM JURANITCH,
POWER-TEK (#180),
FARMINGTON HILLS, MICH.

"Make the best damn resignation speech ever."

—DON SOULTS,
ROUTING TECHNOLOGY
SOFTWARE (#232),
VIENNA, VA.

	Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range* '90	Profit range* '86	No. of employees '90	No. of employees '86	Date founded
271.	**TL Care** San Francisco, CA Designs & mfrs. infant clothing & accessories	1,177%	$2,721	$213	C	F	5	2	1965
272.	**Saloom Furniture** Gardner, MA Mfrs. & sells furniture	1,172	3,881	305	D	D	47	8	1980
273.	**Schweitzer Engineering Laboratories** Pullman, WA Designs & mfrs. electrical-relay equip.	1,167	11,918	941	A	A	63	14	1982
274.	**Coverall North America** (32) San Diego, CA Franchises industrial cleaning svcs.	1,166	13,292	1,050	C	B	121	8	1985
275.	**DCT Systems** St. Paul, MN Sells & svcs. computer hardware & software	1,164	78,973	6,246	D	E	138	25	1984
276.	**McGrath Industries** (406) Clifton Park, NY Provides general-contracting svcs.	1,162	33,257	2,635	B	D	150	25	1985
277.	**Panda Resources** (25) Tulsa, OK Explores & mkts. natural gas & oil	1,161	100,289	7,950	E	E	32	5	1983
278.	**Cactus Services** Chesapeake, VA Evaluates & mkts. new prods.	1,156	1,331	106	B	F	12	2	1984
279.	**Cone Software** (197) Boothwyn, PA Provides PC-based consulting svcs.	1,150	2,751	220	D	D	35	3	1983
280.	**American Mobile Homes of Nevada** Reno, NV Retails manufactured housing	1,150	18,188	1,455	C	C	54	4	1985
281.	**New Science Associates** Southport, CT Provides info.-tech.-consulting svcs.	1,150	3,836	307	F	F	38	9	1985
282.	**FMA Enterprises** Houston, TX Provides collection svcs.	1,147	2,445	196	F	F	27	5	1983
283.	**Advanced Production Systems** Louisville, KY Designs software for industrial automation	1,144	1,829	147	D	B	27	5	1986
284.	**Terra Vac** San Juan, PR Provides environ.-cleanup svcs.	1,139	11,546	932	D	A	118	14	1984
285.	**Precision Response** (140) Miami, FL Provides telemarketing & database-mgmt. svcs.	1,132	9,881	802	D	C	240	26	1981
286.	**Triconex** Irvine, CA Mfrs. fault-tolerant industrial-control systs.	1,127	11,544	941	D	F	59	34	1983
287.	**Eurostar** (122) Los Angeles, CA Sells footwear	1,126	57,479	4,687	D	D	102	18	1984
288.	**Multi-Net** Houston, TX Sells & svcs. microcomputers	1,123	33,723	2,757	F	F	120	10	1984
289.	**Asymtek** (66) Carlsbad, CA Mfrs. automated fluid-dispensing systs.	1,116	6,200	510	B	F	52	8	1983
290.	**LSI Temporary Svcs. & Placement** Wichita, KS Provides temporary-help svcs.	1,112	1,382	114	D	F	4	1	1986
291.	**Scientific Software** Atlanta, GA Provides software & data svcs.	1,108	5,703	472	A	A	56	12	1984
292.	**Raima** (179) Bellevue, WA Develops database software	1,103	6,005	499	D	D	76	10	1982
293.	**USA Direct** Manchester, PA Provides direct-mail mfg. & svcs.	1,097	13,338	1,114	D	E	250	8	1985
294.	**S & W Foundation Contractors** Richardson, TX Repairs building foundations	1,085	1,185	100	D	E	40	1	1986
295.	**Mega Maintenance & Services** Highlands, TX Provides industrial-maintenance svcs.	1,082	5,213	441	A	F	501	24	1983
296.	**Applied Technology Ventures** (135) Cleveland, OH Wholesales computers	1,081	17,720	1,500	E	E	41	15	1980
297.	**Boca Research** Boca Raton, FL Designs & mfrs. boards for PCs	1,070	15,838	1,354	A	F	65	10	1985
298.	**Exsel** Rochester, NY Sells pre-owned computer equip.	1,070	13,555	1,159	D	F	75	12	1983
299.	**Sierra Industries** Uvalde, TX Modifies & svcs. aircraft	1,069	3,202	274	D	A	38	4	1985
300.	**Computer Consulting Services** Montvale, NJ Provides contract computer-consulting svcs.	1,066	3,231	277	D	F	55	7	1982
301.	**Princeton Review of Texas** Houston, TX Provides standardized-testing review	1,063	1,489	128	B	E	8	3	1986
302.	**Data.Com RESULTS** Rocky Hill, CT Provides data communications & related svcs.	1,056	2,764	239	D	E	10	1	1986
303.	**J.B. Dollar Stretcher** Richfield, OH Publishes coupon magazines	1,054	1,281	111	C	F	5	3	1985
304.	**Long Transportation Services** Raleigh, NC Provides trucking svcs.	1,053	6,804	590	D	D	86	4	1984
305.	**DataLOK** (376) Los Angeles, CA Provides data-storage & -retrieval svcs.	1,051	2,048	178	C	F	31	9	1984

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: GALE ZUCKER

Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range* '90	Profit range* '86	No. of employees '90	No. of employees '86	Date founded
306. Personnel Temps Spartanburg, SC Provides temporary-placement svcs.	1,049%	$6,847	$596	D	F	26	4	1985
307. Saturn Electronics & Engineering Rochester Hills, MI Provides electronic-engineering svcs.	1,047	7,950	693	D	A	95	10	1985
308. Labor Force of Mid Florida Tampa, FL Provides temporary-help svcs.	1,046	10,600	925	F	C	35	3	1986
309. Computer Bay Milwaukee, WI Franchises PC dealerships	1,044	92,798	8,111	D	D	38	14	1981
310. Prima Communications (317) Rocklin, CA Publishes nonfiction books	1,043	3,166	277	B	B	7	3	1980
311. Alpha Analytical Westborough, MA Provides analytical chemistry svcs.	1,037	4,411	388	C	D	55	5	1985
312. Stagecoach Cartage & Distribution El Paso, TX Provides cartage & warehousing svcs.	1,032	4,913	434	D	D	130	20	1986
313. Towel Specialties Baltimore, MD Distr. & custom-imprints terry-cloth prods.	1,031	1,515	134	D	D	12	2	1985
314. Credence Systems Fremont, CA Mfrs. semiconductor test equip.	1,030	37,295	3,299	D	F	225	62	1978
315. Software 2000 (417) Hyannis, MA Develops software	1,029	28,595	2,533	C	C	305	30	1981
316. HealthStaffers (38) Chicago, IL Provides nursing svcs.	1,027	14,375	1,276	A	F	362	95	1977
317. Synetics (125) Wakefield, MA Engineers high-tech systs.	1,025	25,880	2,301	D	D	285	43	1984
318. Pacific Precision Laboratories (31) Chatsworth, CA Mfrs. testing equip.	1,020	12,744	1,138	D	C	120	10	1985
319. Walluski Western Astoria, OR Mfrs., designs, & mkts. agricultural equip.	1,019	2,205	197	D	F	20	6	1981
320. Signature Graphics Porter, IN Mfrs. truck decals	1,019	4,297	384	D	E	45	10	1986
321. Microserv Bellevue, WA Provides tech. svcs.	1,018	4,227	378	D	A	73	6	1985
322. Boston Popcorn (236) Newton, MA Mfrs. & distr. "lite" popcorn	1,012	7,375	663	C	F	56	8	1984
323. Kreider/Matsinger Associates Philadelphia, PA Provides architecture & space-planning svcs.	1,010	1,188	107	A	A	12	3	1986
324. Mini Computer Software (390) Waukesha, WI Provides mgmt.-software systs.	1,007	1,229	111	B	F	26	4	1980
325. LMB Microcomputers (363) Indianapolis, IN Sells & svcs. computers	1,006	23,765	2,149	C	B	28	7	1980
326. Poly-Tex Castle Rock, MN Mfrs. & sells commercial greenhouses	1,006	3,383	306	D	D	35	6	1984
327. Northwest Pine Products (242) Bend, OR Produces wood chips for pulp & paper industry	1,005	7,403	670	D	C	30	8	1984
328. Microware Distributors (470) Beaverton, OR Distr. computer equip. & periph.	1,003	203,968	18,486	F	D	392	56	1979
329. Continental Health Promotion Richmond, VA Designs & implements employee health programs	1,003	1,566	142	C	D	21	4	1984
330. Zeiders Enterprises Woodbridge, VA Provides professional mgmt. svcs.	1,001	2,653	241	D	C	83	9	1984
331. TNG Bedford, TX Sells furniture	1,000	1,298	118	C	F	6	2	1984
332. Spray-Tech Longwood, FL Installs vinyl siding for Sears	999	12,720	1,157	D	E	25	14	1982
333. Allsup (239) Belleville, IL Provides Social Security consulting svcs.	999	3,691	336	B	B	54	6	1983
334. Magnet Washington, MO Mfrs. specialty advertising magnets	997	9,337	851	C	C	165	15	1983
335. Prestige Leather (235) Vernon, CA Mfrs. fashion belts	997	20,291	1,850	D	D	274	75	1974
336. Job Boss Software Minneapolis, MN Develops & supports business-mgmt. software	996	1,709	156	C	F	25	4	1985
337. Lifetime Products Clearfield, UT Mfrs. basketball equip.	993	19,131	1,751	C	D	193	14	1986
338. U.S. Xpress (325) Chattanooga, TN Provides commercial trucking svcs.	984	119,283	11,009	D	D	1,600	210	1985
339. HMA Behavioral Health Worcester, MA Provides health-review svcs.	979	2,050	190	D	D	20	5	1982
340. Eagle Marketing Services Fort Collins, CO Provides direct-mail-mktg. svcs.	976	2,970	276	C	F	11	2	1982

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

INC. 500 SURVEY

NO NEW CANDIDATE

Is there anyone you would prefer to George Bush as president?

LEE IACOCCA

WITH AN ELECTION YEAR UPON us, we couldn't resist inquiring about the presidential preferences of these decision makers. We asked CEOs of growth companies to name one leader from any field—candidate or not—whom they would favor over George Bush. Relax, George, many say they'd vote for you, anyway—although one respondent would rather have the First Lady take command. Here's how the votes were cast:

George Bush, 22%; Lee Iacocca, 12%; don't know, 9%; Ross Perot, 6%; Robert Dole, 5%; Norman Schwarzkopf, 4%; Colin Powell, 4%; Dick Cheney, 3%; James Baker, 2%; Sam Walton, 2%.

Dispelling pollsters' suspicions about the validity of our survey are three CEOs who took the question seriously and suggested themselves for the Oval Office. Our favorite picks include Madonna, Clint Eastwood, Warren Buffet, Billy Graham, and should that most final of retirements prove too dull, the return of Abraham Lincoln and Malcolm Forbes Sr.

PHOTOGRAPH: FRANK OCKENFELS 3/OUTLINE

INC. 500 SURVEY

SECOND RATE

Has the United States lost its competitive edge?

STUART E. SALOT

MORE THAN HALF THE CEOS WE asked agree with critics who say that the answer to this question is yes. "I don't drive an American car; I don't listen to an American stereo; I don't watch an American TV; and I don't use an American microwave," says Stuart E. Salot of CTL Environmental Services (#341), in Harbor City, Calif. "We've lost our ability to compete."

The 54% of respondents who see a decline in the nation's economic standing attribute it to poor education, insufficient trade protection, and ineffectual government policy.

However, the 46% who dispute the notion that ours is a second-rate nation find countervailing strengths in people mainly like themselves: entrepreneurs starting companies and pioneering industries. Quality and innovation continue to distinguish U.S. companies, they argue. "Bash away, but when all the beans are counted, we're still number one," says Manny Menendez of Deneba Systems (#84), in Miami.

Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range* '90	Profit range* '86	No. of employees '90	No. of employees '86	Date founded
341. **CTL Environmental Services** Harbor City, CA Provides environ.-consulting svcs.	974%	$6,907	$643	B	C	110	17	1974
342. **Proteus** (259) Albuquerque, NM Provides computer-systs.-integration prods.	974	4,124	384	D	D	63	43	1981
343. **Liberty Business Systems** Fargo, ND Sells & svcs. copiers & faxes	973	1,148	107	B	C	9	3	1986
344. **Switchgear Systems** Dallas, TX Sells surplus electrical-power-distribution equip.	970	2,033	190	D	D	15	2	1985
345. **Liuski International** (71) Melville, NY Distr. PCs & components	969	129,685	12,128	D	D	270	50	1984
346. **Retail Management System** Urbandale, IA Develops & distr. supermarket-mgmt. software	969	1,881	176	F	F	24	3	1984
347. **Human Resources Advertising** Santa Clara, CA Designs & places recruitment advertising	967	4,086	383	F	D	18	3	1986
348. **First Travel Card** Schaumberg, IL Operates travel club	966	15,014	1,408	C	F	100	64	1984
349. **American Biodyne** (42) S. San Francisco, CA Provides mental-health-treatment programs	965	27,680	2,600	C	C	425	60	1985
350. **Motivation Excellence** Inverness, IL Provides incentive-mktg. svcs.	956	7,432	704	D	F	24	4	1985
351. **Newport Creative Communications** Duxbury, MA Provides direct-response-mktg. svcs.	956	2,206	209	C	A	3	1	1985
352. **Centercom** Milwaukee, WI Provides videotape-duplication svcs.	951	5,415	515	C	A	35	4	1985
353. **Concord Technologies** Marlborough, MA Sells & svcs. bar-code systs.	950	6,344	604	D	D	25	4	1985
354. **Tracom** Fort Worth, TX Sells diesel engines & industrial transmissions	950	2,856	272	A	F	25	4	1985
355. **Remediation Technologies** Concord, MA Provides environ. engineering & cleanup svcs.	949	18,312	1,745	D	F	170	20	1985
356. **Source Technologies** Charlotte, NC Sells computer printers	947	3,508	335	D	C	8	1	1986
357. **Step Ahead Investments** (101) W. Sacramento, CA Owns discount stores	946	17,756	1,698	D	D	246	23	1983
358. **JAK Construction** (354) Falls Church, VA Provides general-contracting svcs.	945	21,165	2,025	D	C	95	12	1982
359. **Merit Electric** Fort Collins, CO Provides electrical-contracting svcs.	941	2,572	247	D	B	38	4	1984
360. **Software Spectrum** Garland, TX Resells software	940	118,507	11,391	D	C	200	20	1983
361. **Resource & Development Group** Lenexa, KS Provides direct-mail fund-raising svcs.	938	2,792	269	C	E	21	2	1985
362. **Happ Controls** Elk Grove, IL Mfrs. & distr. video-game controls	937	10,639	1,026	D	D	60	9	1986
363. **Dealer** San Ramon, CA Provides free auto-advertising publications	936	5,585	539	C	A	100	42	1985
364. **Astropower** (110) Newark, DE Mfrs. solar-energy prods.	934	4,363	422	F	F	83	30	1983
365. **Team Spirit** (347) Omaha, NE Sells licensed sports apparel	921	9,173	898	B	A	140	15	1985
366. **East Coast Computer Systems** (152) Tinton Falls, NJ Sells computer systs. & periphs.	921	37,559	3,679	E	C	100	15	1980
367. **Key Construction** Wichita, KS Provides general construction svcs.	916	6,563	646	C	C	32	8	1978
368. **Telamon** Indianapolis, IN Distr. telecommunications material & equip.	916	4,063	400	D	F	24	5	1984
369. **Recra Environmental** Amherst, NY Provides environ. analysis	912	10,544	1,042	C	F	171	82	1986
370. **Environmental Remediation** Baton Rouge, LA Mfrs. bioremediation materials	911	12,760	1,262	C	F	90	20	1987
371. **Pecos River Learning Center** Santa Fe, NM Organizes corporate retreats	911	17,142	1,696	C	F	250	15	1985
372. **American Computer Group** Chatsworth, CA Provides mailing-list svcs.	907	2,316	230	D	E	40	3	1984
373. **Dahlin Smith White** Salt Lake City, UT Operates business-to-business advertising agency	905	25,472	2,534	E	E	53	17	1986
374. **ViaSat** Carlsbad, CA Designs & mfrs. communications equip.	905	3,064	305	C	F	33	5	1986
375. **Glass Dynamics** Stoneville, NC Mfrs. glass for furniture industry	903	8,313	829	C	C	120	8	1985

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: DAVID STRICK/ONYX

INC. 500 SURVEY

DEATH OF THE SALESMAN

Do most businesses underrate the importance of selling and focus too much on marketing?

ROBERT A. FRIES

MORE THAN HALF THE CEOS SURveyed lament the lowly station of sales in U.S. business. Too many companies neglect humble selling and focus instead on marketing, the respondents tell us.

"It's as if management doesn't want to get their hands dirty and get too close to the actual sale," notes Ed Schairbaum, who makes sure nothing is more important than sales at TNG (#331), in Bedford, Tex., where, as he puts it, "you either sell or you help sell, or you are out."

Despite their fervor for face-to-face selling, only 15% of the CEOs who responded spend more than half their time making sales calls. Thirty-nine percent report spending less than one-tenth of their days selling. Still others claim that taking the time to make sales calls helps them stay in touch with their markets and their customers. "I learn so much from walking into someone's office just in the first five minutes. I can't afford not to," says Robert A. Fries, president of Data.Com RESULTS (#302), in Rocky Hill, Conn.

Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range* '90	Profit range* '86	No. of employees '90	No. of employees '86	Date founded
376. American Turnkey Santa Ana, CA Develops mgmt.-control software	901%	$3,613	$361	C	F	40	5	1985
377. Metropolitan Travel (147) Seattle, WA Provides travel svcs.	900	16,664	1,667	D	F	25	6	1985
378. Information America (229) Atlanta, GA Provides on-line info. for commercial transactions	897	14,168	1,421	D	D	114	63	1982
379. Smith Sheet Metal Springfield, OR Mfrs. & installs sheet-metal prods	896	1,643	165	E	A	14	1	1983
380. Papa John's International Louisville, KY Operates pizza franchises	895	9,023	907	C	D	40	8	1985
381. World Express Travel Anchorage, AK Operates retail travel agency	890	34,032	3,437	D	D	75	10	1984
382. NCO Financial Systems (213) Blue Bell, PA Collects delinquent accounts receivable	886	2,742	278	C	E	48	9	1926
383. Flexible Business Systems (467) Melville, NY Provides computer-systs.-integration svcs.	883	3,058	311	D	C	15	5	1985
384. Systems Programming San Francisco, CA Designs & does consulting for software	883	10,154	1,033	B	D	76	10	1981
385. Rigging Co. Portsmouth, RI Rigs yachts	882	992	101	D	E	6	2	1986
386. Computer Support of Sioux City Sioux City, IA Distr. & integrates computer periph.	881	4,945	504	D	C	30	6	1985
387. Gee Kay Knit Products Allentown, PA Mfrs. cotton apparel	880	3,431	350	C	D	21	3	1983
388. DCS Software & Consulting Dallas, TX Provides computer-consulting svcs.	879	2,966	303	F	D	63	6	1981
389. C.H.&D. Enterprises New Stanton, PA Provides highway-contracting svcs.	879	4,423	452	D	C	10	5	1984
390. Target Woodworks Hialeah, FL Mfrs. custom store fixtures	878	6,417	656	C	D	80	25	1985
391. Perspect Systems Venice, CA Mfrs. systs. integrators	872	2,781	286	D	E	13	5	1985
392. Jandel Scientific (492) Corte Madera, CA Mfrs. software tools for scientific research	870	9,230	952	F	F	94	14	1982
393. NETLAN New York, NY Provides LAN svcs.	870	6,680	689	D	F	13	3	1985
394. Information Management Associates (355) Trumbull, CT Develops & implements telemarketing software	869	4,069	420	D	A	65	6	1984
395. Mark-Rite Distributing Indianapolis, IN Distr. labels	869	1,860	192	A	C	13	5	1985
396. Cel Tech Communications Hawthorne, CA Distr. cellular phones	869	33,967	3,507	D	D	15	4	1985
397. Stonyfield Farm (113) Londonderry, NH Mfrs. yogurt	868	6,301	651	F	F	72	12	1982
398. MDM Engineering San Clemente, CA Provides engineering & tech. svcs.	865	5,771	598	C	C	78	15	1984
399. Schnaubelt Shorts (328) Coraopolis, PA Designs & mfrs. bicycle clothing	865	1,206	125	F	A	49	6	1983
400. Performance Engineering Fairfax, VA Engineers & develops info. systs.	861	4,765	496	C	C	50	3	1985
401. Railtex (230) San Antonio, TX Manages short-line railroads	856	21,358	2,235	C	D	176	37	1977
402. Quintiles Transnational Research Triangle, NC Provides health-care-consulting & -mgmt. svcs.	855	17,752	1,859	C	C	250	35	1982
403. Sun Pharmaceuticals (303) Pompano Beach, FL Mfrs. & distr. skin, sun, & health-care prods.	851	17,134	1,802	D	A	74	8	1981
404. Daisytek (360) Garland, TX Distr. computer supplies & accessories	850	150,788	15,877	D	D	240	45	1977
405. ECI Communications Piscataway, NJ Operates audio & video contracting co.	849	2,117	223	A	A	16	4	1985
406. Execu*Systems (401) Phoenix, AZ Provides real-estate-brokerage svcs.	849	1,841	194	C	D	120	2	1965
407. Heritage Asset Management Group Dallas, TX Provides real-estate-mgmt. svcs.	845	1,351	143	B	A	68	12	1985
408. Bohdan Associates (491) Gaithersburg, MD Sells computers	844	91,371	9,681	D	D	155	31	1984
409. Digital Link Sunnyvale, CA Mfrs. & mkts. data-connectivity equip.	844	8,361	886	B	A	63	8	1985
410. TME Houston, TX Develops & manages outpatient diagnostic clinics	841	11,787	1,252	D	C	165	16	1983

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH GALE ZUCKER

Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range*		No. of employees		Date founded
				'90	'86	'90	'86	
411. Siciliano Springfield, IL Provides general-contracting svcs.	840%	$6,949	$739	B	C	70	10	1968
412. Cunningham Communications Santa Clara, CA Provides PR svcs. to the high-tech industry	837	3,953	422	D	A	50	6	1985
413. Banyan Systems (114) Westborough, MA Mfrs. PC-based networking systs.	829	98,178	10,566	D	F	595	111	1983
414. Biobottoms (464) Petaluma, CA Sells natural-fiber clothing by mail order	827	13,791	1,488	D	D	100	12	1962
415. Datastore Systems Franklin Park, IL Mfrs. computer mass-storage devices	826	1,842	199	C	F	7	3	1981
416. Insta-Plak Toledo, OH Mfrs. picture plaques	825	1,045	113	D	F	27	5	1985
417. Catalyst Newtown, PA Provides computer-engineering svcs.	824	4,455	482	C	C	60	7	1986
418. Bendco/Bending & Coiling Pasadena, TX Provides pipe-bending & -coiling svcs.	824	3,400	368	A	D	52	12	1984
419. Virginia Software Herndon, VA Provides high-tech software-consulting svcs.	823	1,108	120	D	A	11	3	1986
420. Metcal (188) Menlo Park, CA Develops proprietary heating technology	822	12,601	1,366	F	F	110	35	1982
421. Bulk International (220) Troy, MI Sells candy, nuts, & gifts in bulk	817	10,678	1,165	D	F	91	14	1983
422. Advanced Sciences (277) Albuquerque, NM Provides environ.-consulting svcs.	816	38,717	4,227	D	D	422	96	1977
423. Spectrum Engineering Baton Rouge, LA Provides engineering svcs.	816	9,230	1,008	C	F	165	30	1986
424. Country Originals Jackson, MS Imports & sells baskets & gifts	814	1,737	190	D	F	12	1	1985
425. Communications & Systems Specialists Columbia, MD Provides real-time systs.-development svcs.	811	5,113	561	D	B	44	8	1982
426. Zia Cosmetics San Francisco, CA Mfrs. & mkts. skin-care prods.	810	919	101	D	F	12	1	1985
427. Modular Casework Systems Redlands, CA Mfrs. wood cabinetry	809	8,282	911	D	D	90	39	1980
428. Phoenix Millwork & Manufacturing Beaumont, TX Mfrs. millwork items	809	2,072	228	B	C	26	6	1985
429. Rockford (173) Tempe, AZ Mfrs. & mkts. car & home audio prods.	807	50,974	5,622	D	C	550	117	1980
430. JMR Electronics Northridge, CA Mfrs. computer & disk-drive enclosures	806	6,511	719	D	D	70	10	1982
431. Applied Signal Technology Sunnyvale, CA Provides signal collection & processing svcs.	804	34,609	3,827	C	F	291	54	1984
432. Kaccel Communication Services Las Vegas, NV Provides underground-cable-construction svcs.	803	1,174	130	C	A	24	3	1985
433. Asheboro Elastics Asheboro, NC Mfrs. knitted narrow elastic fabrics	800	7,581	842	B	F	79	14	1986
434. Image Data Services Lansing, MI Provides computer-output svcs.	800	1,296	144	C	A	18	3	1985
435. Cascade Pizza Development Reno, NV Operates pizza franchise	798	10,842	1,207	F	F	65	10	1981
436. Lonestar Technologies Hicksville, NY Imports & distr. consumer-electronics prods.	793	20,181	2,259	D	F	17	2	1985
437. Carpenter HealthCare Systs. (209) Maryland Hgts., MO Provides health-care-mgmt. svcs.	790	10,289	1,156	F	C	140	35	1984
438. Benko Products (322) Westlake, OH Mfrs. elevating platforms & industrial ovens	789	1,983	223	C	F	7	3	1984
439. Micro Marketing Group Dallas, TX Operates retail computer stores	788	20,347	2,292	D	D	92	18	1986
440. NorthWord Press Minocqua, WI Publishes nature books & audiotapes	787	3,574	403	E	C	18	3	1984
441. Carolina FireMasters Bennettsville, SC Distr. fire apparatus	785	9,155	1,034	D	F	21	11	1986
442. R.M. Barton Oklahoma City, OK Mfrs. pavement-maintenance machines	784	2,095	237	C	A	35	1	1985
443. Penn Property & Casualty (387) Lemoyne, PA Provides insurance & bond brokering	784	2,527	286	D	E	10	2	1985
444. Complete Business Solutions (57) Farmington Hills, MI Provides computer consulting & related svcs.	782	19,400	2,200	D	C	320	40	1985
445. Gainey Transportation Services (96) Grand Rapids, MI Provides trucking svcs.	782	28,096	3,187	D	C	305	42	1984

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

INC. 500 SURVEY

NIGHT SWEATS

What's the one problem that has caused you to lose the most sleep?

ED SCHAIRBAUM

"CASH FLOW. HANDS DOWN, without a doubt," says Ed Schairbaum of TNG (#331), in Bedford, Tex. Meeting payroll wins a landslide victory in the "toss-and-turn" category, competitive though it is, with managing people coming in a close second. The insomniac's hit parade follows:

Cash flow, 31%; personnel, 27%; financing, 8%; containing growth, 4%; government regulation, 3%.

Of course, there are additional worries about continued growth, vendors, partners, sales, the recession, and failure. "It's never-ending," Schairbaum notes. A few even tell us it's the sheer thrill of running a business that keeps them up at 3 a.m. "Excitement!" cries Chad Olson of Pro Image (#160), in Bountiful, Utah. "Sometimes I get up in the middle of the night and go back to work because I'm just so *excited.*"

PHOTOGRAPH: HENRY SACK

Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range*		No. of employees		Date founded
				'90	'86	'90	'86	
446. Software Productivity Solutions Indialantic, FL Researches & develops computer software tools	777%	$2,132	$243	D	F	31	7	1984
447. General Transportation Services (407) Liverpool, NY Provides transportation & delivery svcs.	775	7,678	877	E	C	221	47	1983
448. NYMA (29) Greenbelt, MD Integrates computer hardware & software	774	34,305	3,927	D	D	400	100	1978
449. American Business Technologies Houston, TX Provides computer-maintenance & -support svcs.	771	2,455	282	C	B	38	5	1984
450. BASIS International (458) Albuquerque, NM Develops computer software & database systs.	771	5,284	607	D	F	43	7	1985
451. LeaseTek Pittsburgh, PA Develops & sells PC-based software	768	1,033	119	C	B	15	3	1982
452. Mobile Technology (169) Los Angeles, CA Provides medical, diagnostic, & treatment svcs.	768	87,924	10,131	F	D	465	68	1983
453. Grizzly's Gifts Anchorage, AK Sells souvenirs & gifts	768	2,672	308	A	A	18	2	1985
454. Lai, Venuti & Lai Santa Clara, CA Provides advertising & PR svcs.	766	1,187	137	C	A	9	3	1986
455. Data Sciences Roseville, MN Mfrs. physiological-telemetry equip.	766	1,507	174	D	F	25	10	1983
456. Industrious Software Solutions Inglewood, CA Develops & distr. software	766	2,191	253	C	A	24	1	1984
457. Nutech Laundry & Textiles Hyattsville, MD Mfrs. hotel laundry-mgmt. systs.	762	2,181	253	E	F	110	15	1984
458. Artistic Impressions Lombard, IL Sells artwork	762	6,102	708	C	F	35	4	1985
459. Consolidated Engineers West Lawn, PA Provides engineering-consulting svcs.	760	1,341	156	F	F	16	6	1986
460. Key Risk Management Services Greensboro, NC Administers employee-benefits plans	759	2,458	286	D	F	54	6	1986
461. Small Systems Management Wilmington, DE Sells & svcs. PCs	758	884	103	C	F	5	2	1985
462. Mischel's Scottsdale, AZ Constructs & manages motels	757	3,341	390	A	B	115	22	1970
463. Metters Industries (127) McLean, VA Provides engineering & tech.-support svcs.	756	19,572	2,287	D	D	320	37	1981
464. LANDCADD Franktown, CO Designs & sells land-planning software	755	1,180	138	C	B	16	2	1985
465. Journal of Light Construction (478) Richmond, VT Publishes construction trade magazine	754	2,442	286	F	F	26	6	1982
466. Amstaff Novi, MI Provides human-resources-mgmt. svcs.	753	7,040	825	C	D	30	5	1985
467. Schiff & Associates Bastrop, TX Provides engineering-consulting svcs.	752	1,662	195	C	F	22	4	1982
468. Database Marketing Burlington, MA Provides direct-mktg. svcs.	752	7,687	902	D	A	95	2	1986
469. Focused Image Alexandria, VA Provides visual-communications svcs.	751	911	107	F	D	6	1	1986
470. Greg Allens' Jacksonville, FL Sells computer forms & supplies	748	1,671	197	F	A	10	4	1986
471. Tabra (440) Novato, CA Designs & mfrs. handcrafted jewelry	748	3,791	447	C	B	70	12	1982
472. ERM Northeast Woodbury, NY Provides environ.-consulting svcs.	747	11,435	1,350	C	C	90	29	1980
473. Pride Health Care Pittston, PA Mfrs. electric wheelchairs & scooters	746	17,129	2,025	D	E	105	22	1986
474. Binary Arts Alexandria, VA Mfrs. & imports puzzles & games	744	1,080	128	C	F	3	2	1985
475. Duplitron Orange, NJ Sells & svcs. Panasonic office equip.	743	5,572	661	D	F	81	13	1986
476. Marine Shale Processors (121) St. Rose, LA Recycles hazardous waste	741	46,028	5,474	C	F	320	92	1984
477. Calidad Electronics (369) Edinburg, TX Assembles contract electronics	740	6,571	782	D	D	345	65	1985
478. Securities Service Network (346) Knoxville, TN Provides brokerage svcs.	739	3,030	361	D	D	61	9	1983
479. Party Planners West Marina Del Rey, CA Provides corporate-events planning & mgmt.	737	6,865	820	D	F	30	4	1980
480. Harmony Schools (453) Princeton, NJ Operates day-care centers	736	2,433	291	D	F	105	20	1980

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break even; F. Loss

INC. 500 SURVEY

TOP DOLLARS

Are big-company executives overpaid?

GORDON DICKENS

ALTHOUGH 38% OF INC. 500 CEOs say big-company executives are indeed overpaid, nearly half argue that the titans with the trophy take-homes get what they deserve. "They're not overpaid," asserts Gordon Dickens of Dickens Data Systems (#90), in Norcross, Ga., "if their companies are stupid enough to pay them that much and they're smart enough to get it."

While many had qualms about jumbo pay for executives—"I'd be ashamed to cash the checks some of those guys take home," says Robert Kelliher, CEO of MRI Manufacturing and Research (#242), in Tucson, Ariz.—four out of five object to compensation caps. Let the boards, the shareholders, and the CEOs' performance determine pay, they say. Opinions are mixed when it comes to egalitarian formulas that set a CEO's salary as a fixed multiple of workers' wages. Thirty-seven percent favor a ratio; 43% oppose it. "Sounds too communistic," says Bruce James of Barclays Law Publishers (#234), in South San Francisco.

PHOTOGRAPH LYNNE SILER

Company (1990 rank) Business description	Sales growth 1986-90 % increase	'90 sales ($000)	'86 sales ($000)	Profit range* '90	Profit range* '86	No. of employees '90	No. of employees '86	Date founded
481. Suntex Fishers, IN Sells printed & embroidered sportswear	733%	$2,223	$267	D	F	28	4	1986
482. Princeton Review of Orange County Irvine, CA Provides standardized-testing-review svcs.	730	1,013	122	B	D	4	1	1985
483. Kingdom Tapes (393) Mansfield, PA Sells audiotapes & videotapes	730	5,553	669	C	C	60	10	1980
484. Intelligent Controls Novi, MI Provides engine-engineering svcs.	725	8,358	1,013	D	F	120	15	1982
485. Stone County Ironworks (252) Mountain View, AR Mfrs. iron prods.	725	3,233	392	D	C	91	15	1979
486. Royce Homes Houston, TX Provides home-building svcs.	724	42,263	5,132	D	D	68	8	1984
487. Green Thumb Enterprises (477) Sterling, VA Provides landscape-contracting svcs.	719	13,021	1,589	F	C	230	95	1982
488. Bike Pro USA Phoenix, AZ Mfrs. packs & bags for bicycles	719	844	103	F	F	24	5	1985
489. SoftCopy (222) Lindon, UT Duplicates, assembles, & ships software	719	105,051	12,821	A	A	700	60	1984
490. Milo Technologies Tucson, AZ Provides electrical-contract-mfg. svcs.	718	2,897	354	D	D	124	13	1983
491. MIACO (314) Englewood, CO Provides software consulting & training svcs.	718	2,324	284	B	C	29	5	1985
492. Diversified Technology (130) Newport News, VA Provides govt.-contracting svcs.	717	3,490	427	D	F	137	50	1982
493. Champion Mortgage (394) Parsippany, NJ Provides mortgage-banking svcs.	717	18,682	2,286	A	A	133	25	1981
494. Complete Health Services Birmingham, AL Provides health-care-mgmt. svcs.	716	158,735	19,443	D	F	383	40	1985
495. Canvasbacks Milwaukee, WI Mfrs. women's sportswear	714	3,493	429	A	D	35	8	1978
496. COMSYS Technical Services (134) Rockville, MD Provides software-programming & -engineering svcs.	713	27,019	3,323	D	D	403	70	1979
497. Dialogic Communications (263) Franklin, TN Mfrs. interactive voice-response systs.	709	2,630	325	C	F	22	14	1982
498. Medical Advances Wauwatosa, WI Mfrs. medical-electronics prods.	708	5,243	649	A	D	41	8	1985
499. B.K. Phillips Construction Terre Haute, IN Provides general-contracting svcs.	706	4,028	500	D	D	10	1	1986
500. National Catastrophe Adjusters Indianapolis, IN Provides catastrophic-insurance-adjusting svcs.	703	1,365	170	D	F	31	3	1984

* A: 16% or more; B: 11% to 15%; C: 6% to 10%; D: 1% to 5%; E: Break-even; F: Loss

HOW THE INC. 500 ARE SELECTED

THIS YEAR'S INC. 500 WERE SELECTED FROM MORE than 21,000 candidates. To be eligible, a company had to be independent and privately held; had to show at least $100,000 in sales, but no more than $25 million in sales for 1986; and had to show a sales increase between 1989 and 1990. Regulated banks and utilities were not eligible. Information was verified using tax forms and confirmation letters from certified public accountants, and by conducting telephone interviews with company officials. The final ranking is a function of revenue growth over a five-year period.

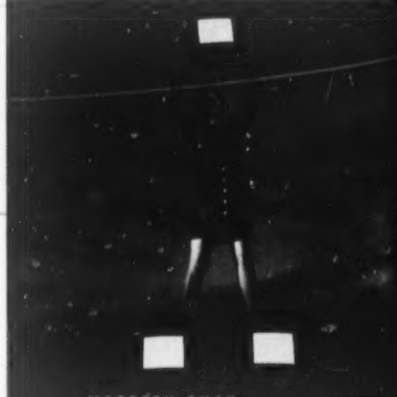
The people responsible for this year's Inc. *500 are (in above photo, standing, from left to right): interns Jesseca Timmons, a senior at Bates College; Josh Penn, a sophomore at the University of Pennsylvania; Dan McGinn, a senior at Boston College; Emily Case, a sophomore at Vassar College; Ty Jagerson, a senior at Wesleyan University; Samantha Corbin, a sophomore at Wesleyan University; Matt Haggman, a junior at Tulane University; (seated, left to right) Caty Supper, a 1991 graduate of Bowdoin College; Annie Longsworth, a senior at the College of Wooster; special-projects editor Sara Baer-Sinnott; interns Elise Reveno, a 1991 graduate of Franklin and Marshall; and Christina Ip, a senior at Wellesley College.*

The 1991 Inc. *500 list was prepared under the direction of Sara Baer-Sinnott, with help from Caty Supper. Staff writer Anne Murphy wrote the commentary that accompanies the listings.*

INC. 500 SURVEY

DOING THE RIGHT THING

Are you getting tired of being told your business has to be more socially conscious?



MARBETH SHAY

SEVENTY-TWO PERCENT OF INC. 500 CEOs assert that businesses have a strong obligation to be socially conscious. It is not enough for businesses simply to pay their taxes and create jobs and wealth. Companies should "give something back," we're told.

While some are inspired by the social activism of companies such as Ben & Jerry's or the Body Shop—Peter Saloom, founder of Saloom Furniture (#272), in Gardner, Mass., feels a "certain kinship with those hippie ice-cream guys"—others find it divisive. "It can just get in the way of business," says Marbeth Shay, president of East Coast Computer Systems (#366), in Tinton Falls, N.J. "I wonder, do I have the right to impose my biases and my politics on our organization or our employees?"

A few are openly critical. Thomas Barnard of Signature Graphics (#320), in Porter, Ind., resents the moralism the two guys from Vermont serve up with their marketing. "I'm sick of Ben & Jerry's," he says.

PHOTOGRAPHS: KATHY TARANTOLA (LEFT); CHRISS WADE (TOP)

HOT
MARKETS

LESSONS FROM
INC.
500
THE LIST

Guess which industry offers the best entrepreneurial opportunities in America. Still

BY JOHN CASE

HOW MANY TIMES IN RECENT YEARS has the press proclaimed the end of the computer industry's go-go era? Way back in 1983 *Business Week* told us that IBM and a few other giants would be dominating personal-computer manufacturing—no openings for new companies there. And just a couple of months ago the *Wall Street Journal* announced that the software business was consolidating. "I don't see major opportunities" for start-ups, one expert said. The refrain is familiar. Growth in computers is slowing. Smaller companies are being squeezed out. Entrepreneurship? Forget it.

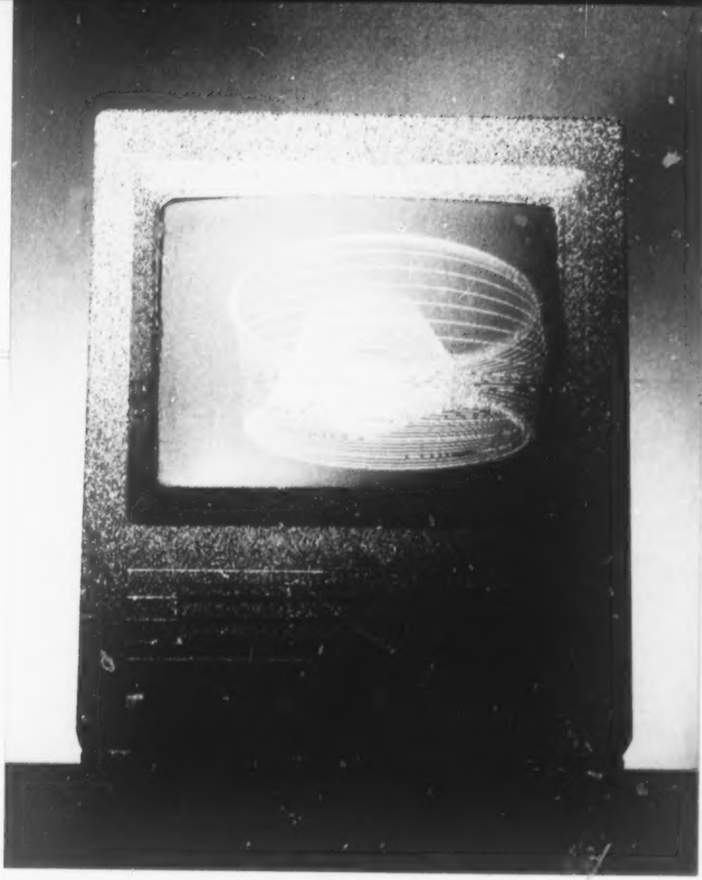
And yet every year more than one-quarter of the *Inc.* 500, the fastest-growing privately held companies in the United States, turn out to be in the business of providing the hardware, software, systems, technical expertise, and everything else required for the computerization of the world's homes and workplaces. Year in and year out, company builders seem to find in computers widening niches that others have somehow overlooked, and they create businesses that can hardly keep up with demand. Admittedly, the companies on the *Inc.* 500, which by definition are at least five years old, aren't last week's start-ups. Even so, the fact that so many young enterprises keep growing suggests that there's more to the business than meets the media's jaundiced eye.

The 135 computer-related companies on this year's list are sprinkled all over the industry's map. A few, like top-ranked Gateway 2000, make PCs. Another dozen or so manufacture components and peripherals—circuit boards, cables, networking devices, add-on memory. There are retailers and distributors, systems integrators, consultants and trainers, maintenance-and-repair specialists. And oh, yes—there are software developers. Numbering about 50 (thus accounting for one-tenth of the list all by themselves), the software companies provide programs for supermarkets and science labs, for logistics specialists and land planners, for UNIX users and Macintosh mavens and DEC devotees. The aptly named Incredible Technologies (#64) even designed the software for Chicago's BattleTech Center, a futuristic dream world that lets adolescents (of all ages) enter a Star Wars–like battlefield and blast away at opposing players.

Like the rest of the 500, the computer-related companies on the list have experienced blistering growth. American Megatrends (#2), a manufacturer of the printed circuits known as motherboards, zipped from less than $200,000 in 1986 sales to nearly $45 million in sales last year. Liuski International (#345), a distributor of PCs and components, ballooned from $12 million to almost $130 million. Even the most modest ventures have undergone a sometimes-bewildering expansion. Small Systems Management (#461), a maintenance and sales company started in 1985 by two young men right out of college, had revenues that rose more than eightfold between 1986 and 1990.

How can such growth coexist with the corporate power and consolidation tracked by the pundits? News reports on the industry naturally focus on its biggest, most visible players—IBM and Compaq's joint 23% share of PC manufacturing in the United States, for example, or Microsoft's 32% share of the world software market. Were computers a traditional mass-production business, those shares would probably grow, and smaller players would find themselves relegated to the sidelines or the grandstand. But computers aren't like cars: their value derives not just from mass production but from customized configurations of hardware and software. Small companies with specialized, close-to-the-customer knowledge can thus create their own growing markets, well away from those dominated by the giants.

In PC manufacturing, for example, booming upstarts such as Gateway skirt the shadows of IBM and Compaq by targeting knowledgeable, price-sensitive buyers. (See "Betting the Farm," page 36.) Even smaller manufacturers such as Daniel Armbrust's Softworks Development (#29) can carve out rapidly growing segments of the market simply by serving particular sets of customers. Armbrust sells his Citus line of IBM clones to customers such as a nearby value-added reseller who provides turnkey systems to hospitals. Softworks' competitive edge: the ability to provide buyers with the exact configurations they need, within 48 hours if necessary, and at a price lower than that of any big national marketer.



In software, too, specialized knowledge and service frequently count for more than sheer size. Lori Sweningson's Job Boss Software (#336) sells a proprietary program for quoting, job tracking, and accounting to job-shop manufacturers all over the country. That's a market, says Sweningson, that large producers of manufacturing-management software haven't had much luck in: their programs are all designed for bigger operations. Roger Nelson's System Innovators (#182) provides specialized cashiering programs to utilities, government tax-collection agencies, and other customers that must collect previously generated bills. "It's a different kind of transaction than retail," says Nelson, explaining that his system tracks items such as late payments and delinquent charges. Yet most large-scale cashiering systems are designed for conventional retail applications.

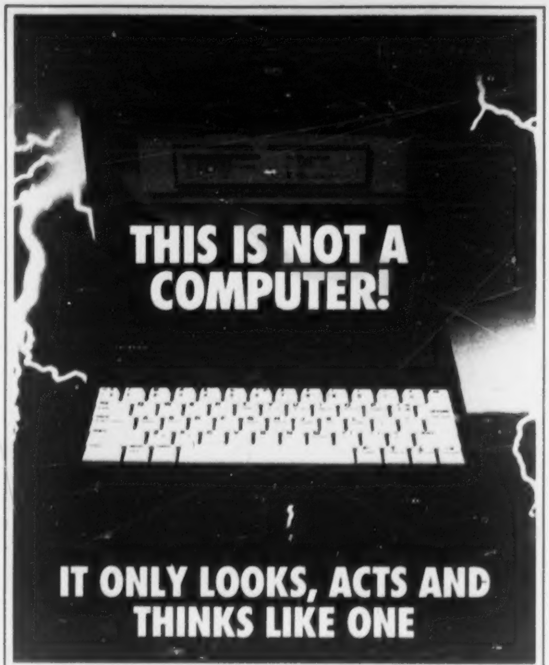
Maybe, of course, it's only a matter of time before the Microsofts of the world snap up or shove aside these niche marketers. Even so, the computer industry as a whole won't be any less entrepreneurial, simply because it's so far away from maturity. Computers aren't like TV sets, which zipped from first use to near-saturation in a decade or two. Rather, the process of computerization is like the process of electrification, which took decades to reach any kind of maturity. Not until the mid 1930s—half a century after the first generating stations—did even two-thirds of American homes have electricity. And how long must it have been before companies were created to, say, manufacture patio lighting or install electric air conditioners?

Today more than one-third of small businesses still don't have personal computers. Neither do the millions of households that may someday want one. So purveyors of home and small-office software, such as Intuit (#47), still have a huge untapped market. Then, too, the hundreds of nooks and crannies that characterize fully mature marketplaces—those air-conditioner installers and patio-lighting manufacturers—have only begun to open up. Consider a trio of examples from this year's 500:

- InfoSource (#268), founded in 1983 by Michael Werner and Thomas Warrner, began its corporate life as a run-of-the-mill computer-training firm: the founders traveled all over the country giving workshops and seminars. But why couldn't training be done on the machine itself? It was an interactive apparatus, after all, and from a customer's perspective, computer-based training would be easier and cheaper than daylong seminars. Intrigued, the founders began developing disk-based tutorials for hot-selling programs such as Lotus 1-2-3. Today the company has about 20 products, some 60,000 customers, and little across-the-board competition. "There's no 'name' company in the business," says Werner. Then too, InfoSource provides a service that the big software developers would just as soon forgo. "There's such a rush in the software business to get new products out," Werner explains; no company wants to take the time to prepare a tutorial.

- Impact Printhead Services (#87) started out as a general computer-repair company; founder David Gillett repaired the occasional dot-matrix printhead, along with disk drives and monitors. Then Gillett developed an add-on component for the Macintosh that he tried to market nationally. He found no takers. But the dealers he mailed to did respond to a little notice at the bottom of the brochure mentioning that Gillett's company also refurbished dot-matrix printheads. Today the Mac product is dead and general repair a thing of the past: Impact will do an estimated $7.5 million this year solely as a remanufacturer of dot-matrix printheads. Among its clients are Ford Aerospace, Lockheed, and several third-party repair companies

PHOTOGRAPHS: PATRICA MCDONOUGH



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- Sean Repko, founder of Exsel (#298), wanted to sell used computers, but not the same way the dozens of tiny exchange services springing up around the country did. On the contrary: he would buy in large lots, remanufacture the computers and issue new warranties for them, then sell through the mail at prices no new-computer dealer could hope to match. Then, just this year, IBM announced the computer industry's first trade-in program: like auto buyers, customers can bring in their old machines and walk away with new ones. And who will be refurbishing and reselling the old computers? "We just signed a national agreement with IBM," crows Repko. "Its 3,000 retailers out there? All their used equipment will be picked up and sold by Exsel."

What's striking about the computer business is how easy the *Inc.* 500 entrepreneurs found it to enter—and how many opportunities for growth presented themselves along the way. Marc Greenberg and Geoffrey Snelling of Small Systems Management started with $920 and little business experience; their chief asset was a willingness to listen to (and learn how to solve) the variety of computer problems their small-business customers encountered. Daniel Armbrust of Softworks Development was a college dropout with $600 in his pocket when he set up shop. Gregory Jameson, founder of LANDCADD (#464), was pursuing a professional career as a landscape architect and developed his land-planning program in his spare time.

Despite such beginnings, many of the young companies have expanded overseas. LANDCADD, for example, expects to collect more than one-third of its revenues this year from foreign sales. And several of the companies have moved almost effortlessly from one product to another. Armbrust began in software, as his company's name suggests. But when his cash flow began to dry up, he segued smoothly into hardware manufacturing. Incredible Technologies, the software company, started out in home video games, won the contract to develop BattleTech Center, and moved into the development and manufacturing of coin-operated video games—now,

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it's creating computerized point-of-purchase displays for the likes of USG, the building-materials giant. "We're going to keep advancing our technology," says founder Elaine Ditton. "I see us continuing to grow."

Maybe someday all this growth will truly slow down: the industry really will mature and consolidate, and computer-related companies will be overrepresented on the *Fortune* 500, not the *Inc.* 500. That day, however, isn't right around the corner. For at least the next couple of decades, entrepreneurs who are looking for fast growth will still be placing plenty of bets on the not-yet-moribund computer business. ❑

PSST! OVER HERE

The industries that growth companies love

The quickest route to membership in the *Inc.* 500? Build your company in an industry that itself is booming—an industry where no one loses sleep over market share, because the market as a whole is expanding so rapidly. Computers are the obvious case in point. (See "Hot Markets.") But several other industries also have proved to be engines of growth over the past half-decade, as evidenced by the makeup of this year's 500:

Environmental services. From Delta Environmental Consultants (#19) to Marine Shale Processors (#476), some 30 companies make their living in environmental analysis, hazardous-waste removal, and a half-dozen other businesses spawned by modern ecological rules and procedures. Niches you didn't know existed: Environmental Remediation (#370) is the United States' largest supplier of the bacteria used in waste-water treatment plants. Growing and selling the bugs accounted for 40% of the company's $12.8 million in fiscal year 1991 sales.

Health care. New technologies offer opportunities for growing businesses: just ask $36-million Maxum Health (#25), which provides magnetic resonance imaging, CAT scans, and renal lithotripsy (dissolving kidney stones with radiation) in 21 states. But the United States' voracious health-care marketplace also creates niches for companies such as PPOM (#154), a network of health providers that promises to cut insurers' costs, and American Biodyne (#349), which operates managed-care mental-health programs. All told, 28 of this year's 500 are in health-related fields.

Personnel management. About a dozen *Inc.* 500 companies are in this narrow but blossoming business: temporary-help agencies, employee-leasing companies, payroll-services providers, and so on. First Benefit (#255) administers employee-benefit plans. Amstaff (#466) operates as an off-site personnel department. Unlike in the past, temp agencies don't just provide secretaries and hourly workers; Lab Support (#62) can send over analytical chemists, molecular biologists, and dozens of other highly skilled professionals for temporary work.

Other business services. The 120 companies on this year's list are hard to classify—but overall employment in business services nearly doubled during the 1980s, a sure sign of a booming market. *Inc.* readers looking for vendors among this year's 500 would find public-relations agencies and printers, consultants and cleaning services, day-care centers and direct-mail experts, travel agencies and time-management specialists. Creative Marketing Incentives (#191) will organize a board of directors meeting or any other event your company might want to sponsor. Insta-Plak (#416) will commemorate the event with photographic plaques made on the spot.

To be sure, not every hot market will show up in the stats. Nature's Recipe Pet Foods (#170) began operations 10 years ago with an original line of meat-and-rice dog foods. Now, says founder Jeffrey Bennett, it has 13 or 14 competitors. Who knows? Maybe a couple will make 500s of the future.

LESSONS FROM THE INC. 500 LIST

GROWTH STRATEGIES

The fastest-growing companies don't just exploit their niches—they redefine their industries. Here's how

BY BRUCE G. POSNER

Finding the High-Stakes Customer

ALLSUP • BELLEVILLE, ILL.

#333

AFTER QUITTING HIS JOB WITH THE SOCIAL Security Administration, in 1982, Jim Allsup spent more than a year studying how disability claims were mishandled. Then he started a business that helps insurers and employers—institutions with gigantic stakes in the outcome—obtain proper benefits for employees. With the company's guidance, clients get to reduce their private insurance premiums or self-insured payments significantly.

One thing that's enabled the company to grow to $3.7 million in eight years is its compensation strategy. Rather than receiving straight salaries, claims people get incentives based on the number of cases they're able to resolve and the size of the settlements. A typical case might save a company $100,000 in benefits over 13 years. Allsup is preparing to introduce some new products, such as health- and retirement-benefits administration programs. Instead of selling to consumers, it will target institutions like banks, enabling them to form stronger ties with their customers.

Vertically Integrating Service

BENDCO/BENDING AND COILING • PASADENA, TEX.

#418

TO SAY THAT BENDCO IS IN THE METAL-BENDING business is to offer only the faintest outline of what it does. This seven-year-old company functions more like a design consultant to customers in the chemical, refining, and construction fields. Staffed by highly skilled metalworkers, many of whom worked for a now-defunct division of Armco Steel, Bendco helps customers map out the best configuration of pipes and beams to meet their requirements in safety, cost, or design.

Bendco's early focus was on Houston-area petrochemical and oil refiners, to whom founder Jim Friery pitched the safety and cost benefits of bending versus welding. Even when purchase orders seemed unlikely, Friery notes, "we'd visit their plants and offer design suggestions at no charge." Prospective customers have always been encouraged to visit the company's facility to discuss future projects.

"We love to show off," Friery concedes. Each of Bendco's 10 machine operators, for example, is certified to work in several different kinds of metals. Most have certification as independent inspectors as well. Too much training? Not as far as Friery is concerned. "We think it helps people do a better-quality job, and it gives our customers a feeling of confidence." As Bendco attempts to do more business internationally, Friery thinks the investment will pay off.

Tightly Controlling Quality and Image

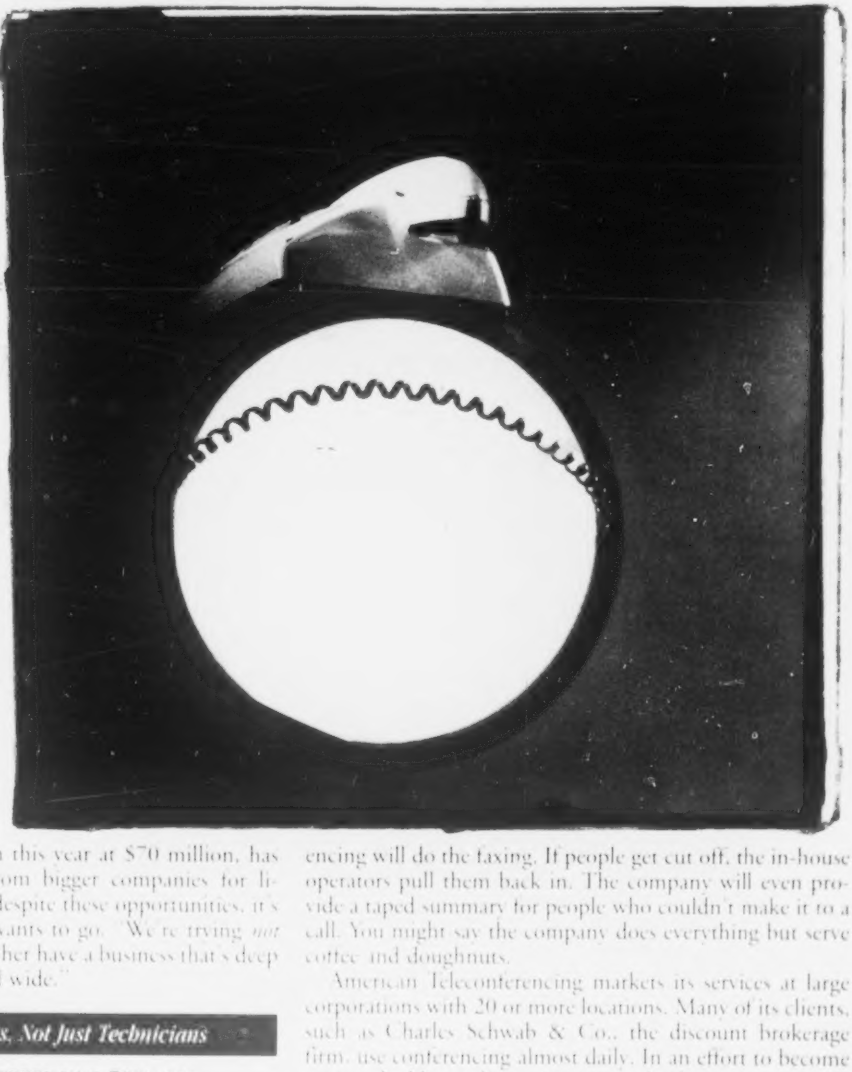
PLEASANT CO. • MIDDLETON, WIS.

#69

AT A TIME WHEN LOTS OF COMPANIES ARE OUT THERE slashing overhead and farming out everything they can, Pleasant Rowland has attempted to keep as much of the work as possible in-house. Pleasant Co. produces and sells a line of high-end books, dolls, toys, and clothing aimed at girls between 7 and 11. The lengths it goes to maintain the integrity of its products and service are extraordinary. Rowland launched her company five years ago less as a profit-driven enterprise than as a vehicle for teaching girls about U.S. history. She began with three fictional characters from different historical periods and has recently added a fourth. Each is brought to life by a doll, priced at around $80; period artifacts, which run as high as $175; and six books about the heroine's adventures.

A former elementary-school teacher, Rowland oversees product development, working closely with company-employed historians and advisers. The dolls and accessories are manufactured on the outside to Rowland's finicky specifications, but they're sold exclusively through the com-

PHOTOGRAPHS: CHRIS HARTLOVE



pany's own catalog, which is mailed to 16 million households; only the books are available in stores. To ensure that phone agents represent the company and its products properly, Pleasant Co. uses its own people; customer reps receive two weeks of special training before taking their first order. The company, which sold $44.3 million in products in 1990 and is aiming to finish this year at $70 million, has received numerous offers from bigger companies for licenses to its characters. But despite these opportunities, it's not the direction Rowland wants to go. "We're trying *not* to be a fad," she says. "I'd rather have a business that's deep and narrow than shallow and wide."

Becoming Consultants, Not Just Technicians

AMERICAN TELECONFERENCING SERVICES
OVERLAND PARK, KANS.
#157

NOWADAYS, IT'S NOT THAT DIFFICULT TO LINK UP A FEW dozen telephones scattered around the globe. "In some respects," admits Robert Cowan, founder and CEO of American Teleconferencing, "the technology of teleconferencing is simple." So what enables Cowan's seven-year-old company to stand out from competitors, such as AT&T, which offer the same basic capabilities? To a large extent, it all boils down to the level of service.

American Teleconferencing specializes in managing large-scale teleconferences in which there might be as many as 400 or 500 people on the line at once. But it acts more like a consultant than a technician. On the front end, for instance, it works closely with company managers on how the conferences might be best formatted to accomplish a client's goals. And it goes out of its way to make sure the client's expectations are met. If participants need printed material in advance, for example, American Teleconferencing will do the faxing. If people get cut off, the in-house operators pull them back in. The company will even provide a taped summary for people who couldn't make it to a call. You might say the company does everything but serve coffee and doughnuts.

American Teleconferencing markets its services at large corporations with 20 or more locations. Many of its clients, such as Charles Schwab & Co., the discount brokerage firm, use conferencing almost daily. In an effort to become more valuable to clients, Cowan and other managers visit clients at least twice a year to learn about the direction of the business and where audio or video conferences might provide value. "The more we can help them," says Cowan, "the better it is for us."

Solving the Problem, Then Selling the Solution

SEABOARD MECHANICAL • RICHMOND, VA.
#221

THE YELLOW PAGES IN MOST TOWNS HAVE LONG lists of heating, ventilation, and air-conditioning (HVAC) contractors who can fix broken systems and install new ones. But few independent contractors have the engineering know-how to suggest the most effective way to solve complex heating or cooling problems. Nor can they structure the financing. Seaboard Mechanical, with five offices in Virginia and North Carolina, can do both. It's been selling the engineering end of its capability since founder Greg Skillman and engineer Gary McSherry merged their two businesses, five years ago.

Indeed, Skillman notes, a growing percentage of the company's business comes from energy-management contracts, in which Seaboard can pinpoint and quantify opportunities to save energy dollars throughout a plant or office. In some instances Seaboard has developed ways of upgrading HVAC systems at no new cost to the user. How? By using the savings on energy bills to pay for the new equipment.

"We'll either find outside investors or finance the new equipment ourselves," Skillman says. In the latter case, after the new system is in place, the customer and Seaboard share in the energy savings until the equipment is paid for.

Working Both Ends of the Market

NUTECH LAUNDRY AND TEXTILES

HYATTSVILLE, MD.

#457

UNLESS YOU OWN A BIG HOTEL, YOU probably don't have a clue about how much it actually costs to keep the sheets and towels clean and the linen closets properly stocked. But everything Jack Robinson learned as a consultant to the hotel industry indicated that it was a line item that was both large and growing out of control.

An accountant by training, Robinson figured that large hotels, in particular, would pay significant sums of money to anyone who could help them get a grip on their huge linen bills. The growth of Nutech Laundry and Textiles to $2.2 million over the past five years is evidence that he may be onto something.

Nutech developed a system—built on computers and proprietary software—that monitors and organizes the laundering process. "We've taken the guesswork out of the process," says Robinson. "And because there's less linen handling in our approach, we've greatly improved the productivity of hotel housekeeping staffs."

To date Nutech has focused on hotels in the Washington, D.C., area, where it operates a 28,000-square-foot laundry facility. At one large Hilton, Robinson says, the savings surpassed $300,000 in the first year. But soon Nutech will be jumping into other markets. Robinson is planning his attack on two fronts: Rather than owning facilities, he'll enter into partnerships with both laundries and hotels. With hotels, he says, "we'll lease them computers and teach them how to run things better." With laundries, he'll do that plus assist them with marketing. As part of the deal, Nutech aims to tap into the money its partners save.

Competition doesn't concern Robinson. "If we did 1% of the hotels in the United States," he says, "we'd have more business than we could handle." ❑

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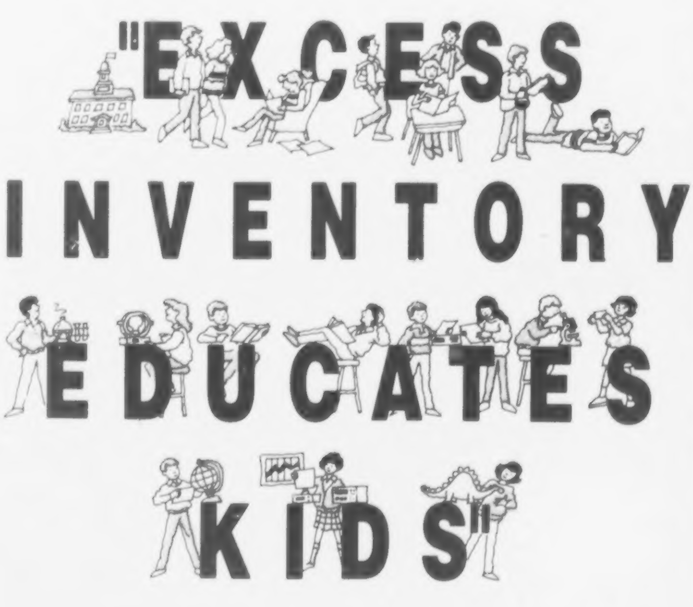


LESSONS FROM INC. 500 THE LIST

THE FOUNDERS

What sorts of people launch growth companies, anyway? And why?

BY LESLIE BROKAW

SOME LEFT BIG-COMPANY JOBS; MANY never had them. Some always planned to start a business; others never dreamed their hobbies might become vocations. The founders of *Inc.* 500 businesses sometimes appear driven to company building by as many different motives as there are names on the list. But the truth, we insist, is otherwise. Look closely, listen hard, and patterns emerge from the sewing-bee quilt of entrepreneurial impulses. Types appear. Ask founders What Made Them Do It, and some reasons just keep coming up.

Here are a few of them.

Brothers Joel, David, and Jon Field built their construction company with the values that had sustained their family's farm.

The 'Working for Ourselves Was Obvious' Naturals

JOEL, JON, AND DAVID FIELD: #131
FIELD BROTHERS CONSTRUCTION, MARION, OHIO
$8.4 MILLION IN SALES; 120 EMPLOYEES

"MY BROTHER JON AND I HAVE ALWAYS BEEN CLOSE because we were twins. We did everything together. We were farmers, but when we graduated from high school, the farming industry wasn't too strong, and Dad said there wasn't enough for all of us to do. Jon stayed at the farm, and I went to work in a factory and entered Ohio State. After just a couple of months I decided I didn't like either, and Jon and I had always wanted to work together, so we went into business. [Older brother David joined them later.]

"We couldn't decide between carpet cleaning and construction, either of which we could get into with little investment. I had business cards made up for both, but construction actually was cheaper, so we got a couple of paintbrushes and a couple of ladders and started painting houses. It really didn't matter how much money we made, because we weren't making much money at the time, anyway. They were trying times. But we always had the camaraderie of each other. We had fun.

"I never pictured working for anyone else. From a very young age I was working hard, milking cows two times a day, always working for myself, my family."—*Joel Field*

The Glass-Ceiling Refugee

JUDITH ARMSTRONG; #262
ADA TECHNOLOGIES, ENGLEWOOD, COLO.
$1.8 MILLION IN SALES; 20 EMPLOYEES

JUDITH ARMSTRONG'S DIFFICULTY IN TRYING TO advance at Hughes Aircraft wasn't just that she was female—"as a woman in mathematics, I've always been the one woman in a room full of men"—but that the company kept bringing in managers from outside offices. "There was not an attitude of growing from the inside," Armstrong says.

She served as technical director for a $25-million data-processing project for Hughes, but, she says, "when I finished, they didn't have a project for me. I'd just delivered

PHOTOGRAPH: TED RICE

Judith Armstrong (left) launched her own company when her corporate career was short-circuited. Scott Kruger (above, front) so avidly pursued his favorite pastime that it became his family's business.

this big thing to the government, I felt really good and high about what I'd accomplished, and there was no follow-up. So I sat around for a couple of months and got bored."

The result: Armstrong split and, with three partners, founded her own R&D company, funded primarily by Small Business Innovation Research grants. She's now putting together a sister company, ADA Instruments, to market the technologies that were developed. "There's been enormous personal growth on my part as I've become someone who really wants to drive this commercialization process, maybe start a manufacturing company. I didn't set out to grow into this person, but I became her anyway."

The Hobbyists Who Got a Little out of Hand

GERALD, SCOTT, JUDY, AND KIM KRUGER; #121
BASEBALL CARD WORLD, ANDERSON, IND.
$13.9 MILLION IN SALES; 63 EMPLOYEES

MARVEL COMICS, PLANET OF THE APES MEMORABILIA, 1940S first-edition paperbacks—everybody, at some time, has collected something. Only the lucky ones, though, stumble into turning their hobby into a $14-million business.

The tale of the Kruger family reads like a Disney script. Son collects baseball cards—what else?—in Indiana bedroom. Starts selling off complete 1955–1977 sets when he's 15. Goes to card shows, buying and selling. Gets set up by father in a small trading shop, "just to give him spending money." Carries card-protection sheets. Places ads in sports magazines to sell sheets nationally. Mother quits job at General Motors plant four years later, in 1985, to work in growing mail-order business. Father leaves GM two years after that, as does daughter two years further on.

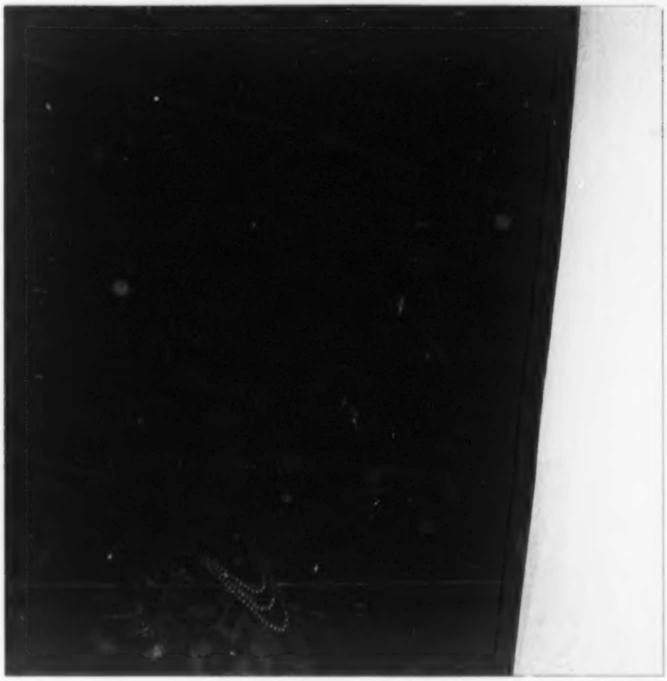
Today Baseball Card World is a manufacturer as well as a distributor of supplies for collectors. "This business has far exceeded any goals we ever talked about," says son Scott, who heads up purchasing and operations. "One thing I try to stay away from these days is turning my hobbies into businesses," he adds, admitting he's thought about buying the racetrack where he drives stock cars. "Not that I regret the one I've got. But sometimes hobbies need to stay hobbies."

The 'I Can Do It Better Than My Old Boss' Opportunist

MARK COHN; #6
DAMARK INTERNATIONAL, MINNEAPOLIS
$194 MILLION IN SALES; 500 EMPLOYEES

A SEIKO COMBINATION COMPUTER/WATCH: MARK Cohn and David Russ knew it was a sure thing. After abandoning stable jobs at a fast-growing retailer of dis-

PHOTOGRAPHS: MANUELLO PAGANELLI (LEFT); ANDY GOODWIN (RIGHT)



counted merchandise when the company brought in professional management, they had become wholesalers, supplying their former employer. But the company declined to pick up the Seiko doodad—though Cohn, who'd nabbed an option on 6,000 of them, made his pitch four times—and the two men figured it would be stupid not to sell the watches themselves.

After launching a little black-and-white catalog, Damark (a combination of Cohn's and Russ's first names) continued to seek new products for the old company while adding the rejects to its own offerings. But a few months later Cohn and Russ were called on the carpet. Either be a supplier or be a competitor, said their former boss. You can't be both.

Rex Hardin (above) brought his One Big Idea to life. Shari Tresky and Lee Tulp (top right) merged their social mission with a commercial one. Mark Cohn (top left) thought he could outperform his old employers, and he did. And for Lawrence Ybarrondo (middle left), entrepreneurship was the antidote to big-company malaise.

"David and I knew at that moment we were going to be a competitor," Cohn says. "For one thing, we knew they were going to try to go around us to get our products at a lower margin. And we knew that we could be in this business. We loved making the ads, shipping the products, making the phone ring. We had this business in our blood." There was another thing, too: "I always felt that I knew more than the people I worked for."

Damark surpassed that company and more—in 1990 it sold almost $194 million worth of discounted consumer merchandise such as fax machines, water purifiers, and brass planter sets. It's now one of the largest sellers of general discount merchandise. Russ retired this past summer.

The Activists

SHARI TRESKY, LEE TULP, WAY KONIGSBERG, DEBORAH STARNES; #43

ABACUS, SAN FRANCISCO

$13.7 MILLION IN SALES; 84 EMPLOYEES

WHEN THEY FIRST BEGAN OPERATING OUT OF THEIR Haight-Asbury household in 1973, the founders of what would become Abacus were producing an environmental magazine. Members of an all-women business collective, they added housekeeping, gardening, and taxi operations to the venture because friends needed jobs. A graphic artist on staff led them into design work, and eventually they began selling computers, too.

Abacus now could be categorized as a computer sales and support company—the bulk of last year's revenues came from computers, network and computer repair, and applications training, although the company also does graphics

PHOTOGRAPHS: PAUL SHAMBROOM (TOP LEFT), ROBERT HOLMGREN (RIGHT), ANDREW RAFKIND (MIDDLE LEFT), ROGER MASTROIANNI (BOTTOM LEFT)

and multimedia production, runs a temp agency for technical workers, and operates a travel agency. That diversity isn't just to protect the company from recession—it fits into the overall vision. "Our motivation has always been more abstract," says cofounder Lee Tulp.

"We're in the technology business," explains CEO Shari Tresky. "We want to take technology as far as it can go in terms of lifestyle options and improvement for humanity." Their ultimate goal, she says, is to help establish communities for cooperative living, recreating ideas about how work and family life and artistic impulses can be combined. Twenty-eight Abacus employees, including the four owners and their management team, live in a cooperative now.

"Our basic impulse always was to do something very, very cool, very, very monumental, taking our ideas as far out there as we could," Tulp adds. Abacus, she says, is their way to develop technical skills and resources to do those bigger things. "In principle, integrating computers is not very different from integrating communities. In both cases you're providing services and comprehensive solutions."

The Big-Organization Convert

LAWRENCE YBARRONDO: #247
SCIENTECH, IDAHO FALLS, IDAHO
$17.4 MILLION IN SALES; 139 EMPLOYEES

"I ROSE THROUGH THE RANKS AT THE Idaho National Engineering Test Site, got to be second-in-command, supervising 2,000 people, overseeing a $150-million budget. We ran the premier nuclear-safety tests in the world, and I was having a lot of fun, running experiments late at night, blowing up fuel bundles.

"I was sent to the MIT business school's senior-executive course. It's 10 weeks, very intensive, and it's a total spectrum—we went back and read the Constitution, Karl Marx, ethics and business, the law.

"It was a turning point for me—actually more like a renewal. I had gone to a Jesuit university and had taken courses on moral philosophy and ethics. The MIT session focused me like a laser beam on how all that fits into business. I just absolutely loved it.

"I came back all fired up to do strategic planning for the site, trying to think ahead five years and point out that the commercial nuclear industry was approaching maturity, that we had to be thinking about what the mission of the place was, where the jobs might be for these 4,000 people. But then the government decided that such questioning was a sinful activity—that it was a threat to government power. It became clear that if I persisted, they'd kill me, in a business sense.

"I left six months later, and shortly after that it dawned on me: I'm free and clear now. It all crystallized one day when I was reading the *Wall Street Journal* at the airport, an article on entrepreneurship. I thought, That's what I want to do. I came back and talked to my wife about it and said, 'Let's start our own company.'"

The 'I've Always Had This Idea' Romantic

REX HARDIN: #416
INSTA-PLAK, TOLEDO
$1 MILLION IN SALES; 27 EMPLOYEES

FOR 30 YEARS REX HARDIN WAS PERFECTLY happy being a dentist. The money was good. There was time to golf. He had no complaints.

But in 1985, at age 60, shoulder surgery fried his career: he couldn't even hold a mouth mirror for more than a few moments.

What Hardin could hold on to, though, was an idea that had been percolating for a couple of years. Whenever he'd golfed in a pro-am—paying $750 for the privilege of putting next to the stars—the photo plaques he received to commemorate the great event came many months later. One plaque was broken down the middle. Another had the right photo, wrong names. "It kind of took the gloss off, getting them like that," Hardin says.

Someone could make a good business, he'd always figured, running a mobile photo-developing and engraving service to furnish plaques on-site. Since he now needed a job, he might as well be that someone. Nine months after his surgery Hardin launched his company with the dentistry-reminiscent name Insta-Plak. Last year the company serviced 90-odd professional-tour events and a smattering of corporate customers. ❑

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INC121

(PROSPECTING, from page 153)

calls an hour, eventually increasing it to 100 calls a day. "I hated the phone," says Robertson, "but David drummed into me that it usually takes 10 calls to make a sale."

- **Get your prospects organized.** A desk with 120 prospect folders is too cluttered. Beyer had Robertson choose the 10 most likely to close and place a green dot on them. A red dot on a folder meant she had a commitment but no check yet. Her goal was to convert three green dots to red every month and to follow up on the red-dot folders daily.

After Robertson followed Beyer's advice, her sales exceeded $335,000 during the first half of 1991—more than double those for all of 1990. *—Teri Lammers*

RESOURCE

Export: One Call Answers All

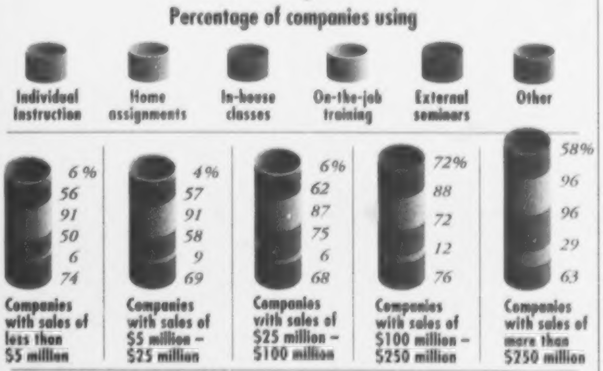
Potential exporters sometimes complain that researching foreign markets and dealing with export complexities are too tough to bother with. To help, the Small Business Foundation of America operates the Export Opportunity Hotline (800-243-7232), which is free except for some customized services. Operators can answer questions on foreign-market research, export financing, licensing and insurance, documentation, and finding hands-on help.

They might send you, for instance, to the Rhode Island Export Assistance Center (EAC), operated by Bryant College, in Smithfield, R.I. The EAC helped Premier Thread, based in Bristol, R.I., identify potential customers in Central and South America, find contacts in Spain and Portugal, and fill small initial orders from Italy and Korea. The center also helped Premier create a marketing brochure and write a business plan for exporting. —*T. R.*

SALES TRAINING

How Do You Train Your Sales Force?

Most companies use a variety of methods to train their salespeople. Because of limited resources and time, and a focus on getting salespeople out in the field, smaller companies tend to focus on traditional methods (such as on-the-job training and individual instruction) rather than less expensive alternative approaches, such as home assignments.



Source: "Twenty-sixth Survey of Sales Force Compensation," The Dartnell Corp., Chicago, 1990.

STRATEGY

Reps or Sales Force?

FOR MANY START-UP COMPANIES, the question of whether to build a company sales force or to sell through independent reps is academic. Young start-ups can't afford the sales force, and rep firms won't talk to them until they've generated *some* sales. Eventually, though, the question arises: sales force or reps? Sometime-entrepreneur Paul Sherlock, who is currently director of strategic marketing for Raychem, a materials-science company, and has written *Rethinking Business to Business Marketing* (The Free Press, 1991), suggests five ways to help you decide.

- **Degree of technical competence and knowledge required.** For complex products and applications requiring a scientific or an engineering background, there's no contest. A company sales force is your only choice.
- **A customer's needs, wants, and expectations.** A customer's purchasing agent will feel comfortable buying inexpensive items or commodities from a sales rep. But the customer's vice-president or president may feel peculiar about paying a rep's commission on something significant, such as a new MIS or custom-designed robotic system, when all the installation work will be done by the customer's engineers.
- **Dollar size of the average sale.** Say your average customer spends $10,000 a year with you, and maintaining that volume requires eight sales calls. First, calculate the cost of each sales call. Sherlock estimates that a salesperson capable of making three calls a day, 160 days a year, costs a company $100,000 annually. (Plug in your own estimates or assumptions.)

$$\frac{\text{Salesperson cost/year}}{\text{Number of sales calls}} = \text{Cost of sales call}$$

$$\frac{\$100{,}000}{160 \text{ days} \times 3 \text{ calls/day}} = \$200/\text{sales call}$$

Eight calls a year cost $1,600 to generate $10,000 in sales, so the company sales force costs about 16% of the sales dollar.

A rep's commission, Sherlock says, runs between 5% and 15%, depending on the product, so in this case reps might be cheaper—provided they're capable of making the sale.

- **Sales-gestation period.** Reps like sales that happen quickly. A two- to four-year period between contract signing and system installation is not going to excite a rep working strictly on commission.
- **Number of customers and their concentration.** If the nature of your product means you have lots of potential customers scattered far and wide, that favors reps. But if the 80:20 rule applies—80% of your sales will come from 20% of your potential customers—a sales force looks better. "In many situations," Sherlock says, "three factory-sales engineers with depth of knowledge, boundless energy, authority to make commitments, and unrestricted air-travel cards can introduce a product faster, with more immediate sales, than 50 floundering reps." *—T. R.*

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

BENEFITS

Dry Shoulder for Hire

HERE'S THE DEAL: YOU CAN pay someone else to handle your employees' personal problems. Instead of confiding in you, your employee calls an independent counselor about any kind of problem—from drug abuse to a bad case of the blues. The counselor makes a diagnosis and guides the caller to treatment.

This hands-off approach is known as an employee-assistance program (EAP), and it's been all the rage in large companies. Small companies are a different story. Only about 5% of companies with fewer than 100 employees use EAPs. The reason: it costs more for EAP companies to market to and service the little guys. So the annual cost is likely to be $35 to $40 for each employee family, while large companies pay considerably less.

And why bother? Small companies tend to act like close-knit extended families, anyway.

That's nice, say the EAP types, but coworkers can't possibly be as effective as a professional. The pitch for an EAP goes like this: a dollar invested in an EAP is supposed to save $2 to $3 in reduced medical claims, absenteeism, and other productivity zappers. "You tell me the cost of having 20% of your work force down for 20% of the day," asks Jesse Bernstein, president of Employee Assistance Associates, which is based in Ann Arbor, Mich.

Ron Parks, president of Millard Manufacturing, a $5-million metal fabricator in Omaha, counts his EAP as a double time savings. Not only are troubled employees more quickly freed to concentrate on their jobs, but their supervisors don't have to spend as much time trying—usually ineffectively—to solve a problem they don't really understand.

Perhaps the most persuasive argument in favor of EAPs are these depressing statistics: alcoholics are involved in 40% of industrial accidents; substance abusers' productivity is 25% to 33% lower than average; nonalcoholic members of an alcoholic's family use 10 times the number of sick days as do employees who don't have an alcoholic family member.

If you decide to purchase an EAP, look for the following traits:

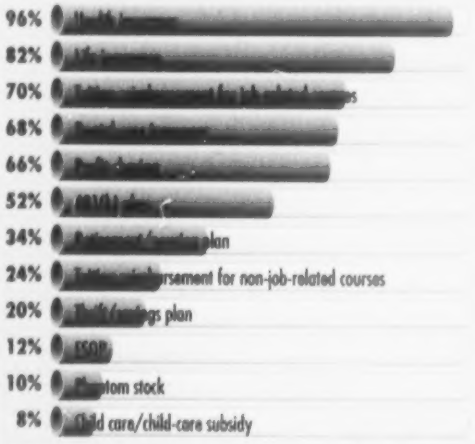
- **Independence.** Beware of low-cost or no-cost EAPs that function as "feeders" for an alcoholic-treatment center, for example. Affiliations with hospitals or other institutions are OK if the EAP can prove it exercises independent judgment in referring clients.
- **Financial stability.** There are plenty of EAPs run by people without business experience. Ask to see the profit-and-loss statement. Request an explanation of management's business controls and plans for handling growth.
- **Qualifications.** Look for minimum qualifications of three to five years of post-master's-degree experience. Certified employee-assistance professionals (CEAPs) will have at least three years of experience. Counselors fielding calls must be highly trained to recognize a broad range of problems, particularly alcohol and drug dependency. "If they haven't had specialized experience," says Carl Tisone, chief executive officer of Personal Performance Consultants, in St. Louis, "clinicians can be fooled every time."

—E. E. S.

Beyond the Pay Envelope

While most small and midsize companies offer their employees health and life insurance, those alone may not win an employee's long-term loyalty. Just over half of the businesses Inc. *recently polled offer a 401(k), only about a third have a retirement or pension plan, and a mere one-fifth offer a thrift/savings plan. Employee-assistance programs have yet to make a blip on the charts.*

Type of benefit and percentage of companies offering it:



Source: Based on a survey of *Inc.* 500 Conference attendees.

* * *

RESOURCE

Employee-Assistance Programs

YOU CAN LOWER THE COST OF AN EMPLOYEE-ASSISTANCE program by joining a group of small companies that have banded together to get a better price for services or to create their own program. Ask nearby chambers of commerce or your industry association about such consortia.

If you're shopping for providers, the Employee Assistance Professionals Association will refer you to members in your area. The organization has also developed a set of standards to live by. Though it's stiffly worded, the EAPA's $15 booklet will give you good criteria by which to judge providers. To order it, call the EAPA at 703-522-6272.

CHARTS: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

THE AMERICAN DREAM

BUSINESS FOR SALE—NEW HAMPSHIRE COUNTRY STORE

THE BUSINESS What we have here is a living, working National Historic Landmark: the oldest continuously operating general store in the United States. Locals and tourists (they make up 35% and 55% of sales, respectively; mail order accounts for the rest) both have flocked here for generations to find traditional Yankee staples such as baked goods, work gloves, smoked meats, and lively discussion. Or maybe to find the obligatory covered bridge (three of them, actually) nearby. Ideal for a mom and pop looking to play store.

FINANCIAL SUMMARY

	1989	1990	1991*
Gross revenue	$399,000	[illegible]	[illegible]
Net profit (before depreciation, interest and owner compensation)	$52,000	$45,000	[illegible]

*projected

PRICE $325,000, plus inventory ($40,000 at cost)

OUTLOOK Supermarkets and convenience stores have rendered most general stores obsolete, but they keep proving viable on New England backwoods byways. And though this store's margins won't make you a millionaire—its 12% net is right around the industry norm—its revenue stream seems stable. Standing arrangements with tour-bus operators help, and whether because of cheese bricks, maple-sugar candies, or effulgent autumn leaves, northern New England's appeal appears to be both timeless and recession-proof.

PRICE RATIONALE There are no general pricing multiples for businesses like this one because, industry insiders say, there are no general general stores. Still, the likely debt load makes this price look high. Even if you've got the $95,000 the seller wants as a down payment, financing the balance could cost $30,000 a year in interest alone—and that's more than 50% of cash flow.

PROS "Free" room and board. No commute. Potential for increased mail-order business through expansion of mailing list. And the chance to live inside a Norman Rockwell painting.

CONS Antiquated charm and cracker-barrel flavor don't often lead to high-margin inventory—or to short hours. The store runs seven days a week, from 7 a.m. to 9 p.m., and longer in hunting season; unlike the people in the aforementioned painting, the owners of this place will be tough to catch standing still. *—Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Country Business Inc., 802-254-4504.

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PHOTOGRAPH: H. ARMSTRONG ROBERTS, INC

The Best in America: 1992's Entrepreneur of the Year Awards!

Inc.

And the Winners Are…

[illegible]

BEST ST

PLUS:
Master Entrepreneur

Most Socially Responsible

Best Supporter of Entrepreneurship

"HANDS ON"

31 IDEAS YOU CAN USE

Do Your Sales Incentives Measure Up?

How to Recruit on the Cheap

Raising Cash from Employees

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CEO CECIL URSPRUNG, ONE OF THE 240 AWARD-WINNING EMPLOYEE-OWNERS OF REFLEXITE CORP.

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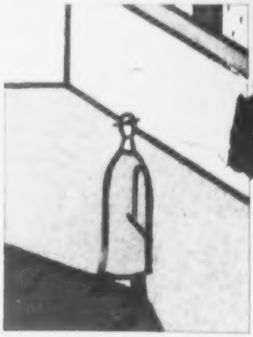

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COVER PHOTOGRAPH
by BRIAN SMALE

RESULTS FROM
OCTOBER

The Inc. FaxPoll™

ARE AMERICAN WORKERS WIMPS?

Yes! That was your overwhelming response when we asked this question in our debut FaxPoll last October. In no uncertain terms, you told us that good employees are hard to find and harder to keep—and most of you laid the blame squarely on today's American worker.

IS IT HARDER THAN EVER TO FIND GOOD EMPLOYEES?

80%	20%
YES	NO

WHY?

EMPLOYER CAN'T FIND PEOPLE WHO ARE WILLING TO WORK HARD

78%

Many of you commented that today's workers expect too much for too little: "Their expectations outrun their qualifications," said one. "They're just out for themselves," said another. "They don't take responsibility."

Though in the minority, several of you took vocal exception to this, instead accusing American managers of abdicating their roles as leaders: "American management, not the American worker, is at the root of our problems!" and "It sure is popular for the yuppie manager to pick on the American worker."

Interestingly, even paradoxically, it seemed to be this minority viewpoint that was reflected in most of your companies' policies. Although you clearly believe that what U.S. employees bring to the party leaves a lot to be desired, you just as clearly accept the responsibility of improving that situation by offering more and better training and better-tailored benefits packages.

Only a combined 65% (on many questions, respondents gave multiple answers) see a solution in repeated hiring and firing or in increased compensation, while more than twice as many of you opt for improved training and communication and greater flexibility on the part of the employer. One summed it up this way: "Managers think they cannot take the time or resources to add to their employees' professional growth. Fact is, they cannot afford not to."

In this regard most of you put your money and time where your mouths are, and offer a benefits package that combines compensation incentives with a more flexible work environment.

HOW IS YOUR COMPANY TRYING TO FIND AND KEEP GOOD PEOPLE?	
Offer more training	51%
Provide more information about your business	41%
Be more flexible	40%
Hire and fire until you find the right person	35%
Offer more compensation	30%
Ask less of employees	8%

A company's size, as measured by number of employees, is a strong indicator here of what a benefits package might look like. Smaller companies are more likely to use nonfinancial incentives like flextime (65% of companies with 5 or fewer employees versus [illegible]7% of those with 100 or more) and work-at-home options (20% versus 10%), while larger companies are more likely to go with stock options (7% versus 28%) and cafeteria-style benefits (13% to 31%). Companies with 100 or more employees are far more likely to offer maternity leave (65%) than those with 10 or fewer (13%). For companies of all sizes, incentive compensation is frequently offered (62%), while day care is scarce (4%).

WHICH OF THE FOLLOWING DOES YOUR COMPANY OFFER WORKERS?	
Incentive compensation	62%
Flextime	46%
Maternity leave	35%
Cafeteria-style benefits	21%
Job sharing	18%
Work at home	17%
Stock or options	13%
Day care	4%
Profit sharing	4%

No surprises here. While most of you showed some favoritism to your own age group, you strongly subscribe to the conventional notion that workers are most productive in their so-called prime, ages 36 to 45. But are you missing an opportunity here? Are good workers in the under-25 and over-55 categories being overlooked? They might have the solution to some of your problems: young workers are eminently trainable; older workers are often highly skilled and disciplined—and compensation may be a secondary consideration for both groups.

IN WHICH AGE GROUP ARE WORKERS MOST WILLING AND ABLE TO PROVIDE A DAY'S WORK FOR A DAY'S PAY?	
18–25	6%
26–35	26%
36–45	38%
46–55	23%
Over 55	6%

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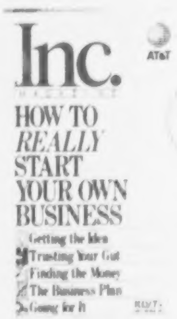

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(WORK FORCE, from page 99)

companies to be in compliance:

- **Revise job descriptions.** The act requires you to hire any qualified person with a disability as long as that person can perform, with or without "reasonable accommodation," the essential functions of the job. You must specify what's essential in job descriptions.
- **Create accommodation guidelines.** Set up an employee review board to establish and publish guidelines for making accommodations.
- **Expunge health questions.** Don't ask, "Is there any physical or mental condition that would prevent you from performing this job?" on application forms or in an interview. Questions about previous on-the-job injuries are forbidden.
- **Ban most physicals.** You can't ask someone to take a medical exam before you make a job offer. And you can't withdraw an offer upon learning the results, unless they show that the candidate cannot perform an essential function. The results of *any* physical exam must be segregated from other personnel files and kept confidential. Drug testing is allowed.

To be on the vanguard of hiring the disabled, ask how you could adapt the equipment or jobs of current employees to accommodate their impairments, which you may not be aware of. Also contact and build relationships with agencies that help disabled persons find jobs.

Two other methods of accommodation: job coaching and job carving. The first provides a disabled employee with a work-site coach. Carving a new job—with functions that a disabled person can handle—out of an existing job is another way to be proactive.

SBM's Cannata has found disabled workers to be both reliable and loyal. What's more, they've brought his business a wealth of tax credits through various federal and state programs. "We've been commended for our hiring," says Cannata, "but actually, it's been very advantageous for us."

—E. E. S.

PERFORMANCE

Bugging the Phones

BILL GRIMES, PRESIDENT of Travel Design, a start-up in Wyoming, Mich., had wanted to be less of an FBI agent and more of a coach to the 110 sales agents who worked for him at the Endless Vacation, a travel company he sold in 1990. So he allowed them to record their conversations with customers. Then, at the employees' initiative, those recordings were reviewed by the employee and a supervisor.

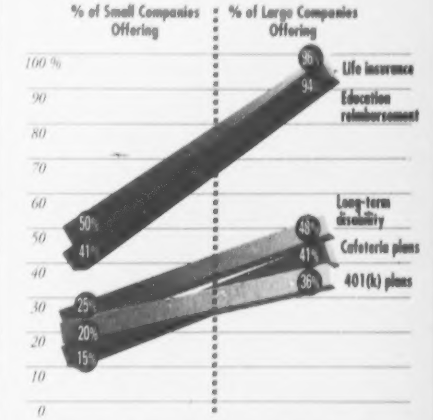
"About 25% of the agents took an interest in improving themselves," says Grimes, who plans to install the system at Travel Design. Letting employees monitor themselves, combined with

(Continued on page 102)

BENEFITS

Where Would You Rather Work?

McGladrey & Pullen, an accounting and consulting firm based in Anaheim, Calif., surveyed 214 companies—most of them with revenues of less than $10 million—to find out how their employee benefits stacked up against those of large companies. In general, half as many small companies offer what the large companies do.



Source: McGladrey & Pullen, Anaheim, Calif., 1990.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

ACQUISITIONS

Leasing the Whole Company

IF YOU'RE HAVING A TOUGH time arranging the financing on an acquisition, here's one way to approach the deal with a minimum of outside financing. The idea: *lease* the business from the seller until you're able to finance it more conventionally. That's what Jack Dean is doing with Dean Custom Foods, a fruit-juice processor in North East, Pa., and the tactic could work in lots of settings.

Dean, the founder and retired CEO of Erie Creative Coatings (a onetime *Inc.* 500 company), had attempted to buy the new business last January. But when his partner dropped out, the purchase financing unraveled. Dean went to five different banks, but all wanted significant amounts of collateral. That was when his attorney suggested a "master lease."

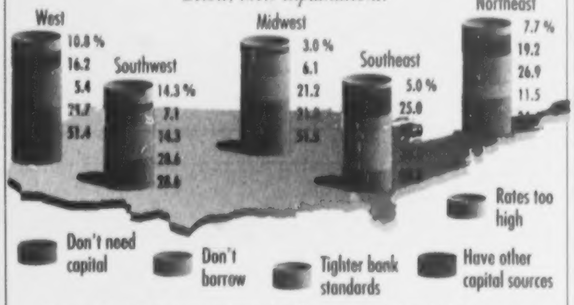
Under the master lease, Dean doesn't own the property on which the business sits or the equipment that makes it run, but in many ways, he says, it's hard to tell the difference. He has a five-year lease on the property and the equipment, and pays monthly rent of about $15,000. (The amount, Dean says, provides the lessor with an annual return of around 10% on his assets.) Beyond that, Dean is responsible for maintenance, utilities, and part of the insurance. Built into his lease is the right to buy the real estate and equipment for a predetermined price before January of 1994 (at which time the price will jump up).

So far, he's been able to more than double annual revenues to about $1 million and generate a "pretty healthy" profit. If that growth continues, he hopes to use the equity he builds toward purchasing the business. ***—B. G. P.***

DEBT

Why Businesses Are Borrowing Less

A lot of people use the "credit crunch" to explain everything that's wrong with the economy. But tighter lending standards are just one reason companies are borrowing less from banks, according to a recent survey of small companies conducted by the AICPA. The survey of 2,000 private businesses with revenues of less than $25 million showed that about 40% of the companies had not borrowed from banks in the 12 months prior to the survey. Below, their explanations:



Source: American Institute of Certified Public Accountants, New York City, 1991.

COMMUNICATION

Learning from Rejection

WHEN FINANCING PROPOSALS get turned down, the natural tendency of most business owners is to lick their wounds and blame the myopic bankers or investors who can't see the potential. Partly out of embarrassment, few financing people will step forward with candid explanations of why the deal was rejected; and entrepreneurs are usually reluctant to ask.

But to let the whole matter slide is to miss an important opportunity, says George M. Dawson, a veteran banker and the author of *Borrowing for Your Business: Winning the Battle for the Banker's "Yes"* (Upstart Publishing, Dover, N.H., 1991). His advice: wait a day or two, then phone the banker to ask for a face-to-face meeting. Dawson, now an adviser to companies in San Antonio, says your chances of getting that meeting are "a little better than even." Here are some points that he recommends keeping in mind during the meeting:

- **Assure the banker that you're not trying to change his or her mind and that you respect the bank's decision.** Be calm and don't be critical, Dawson says, "even if it takes patience and self-control."
- **Ask lots of questions.** "Your goal is to learn what steps you need to take to make your company creditworthy. The best way to do that," he says, "is to ask questions and learn all you can about the credit weakness the bank sees in either your company or the presentation."
- **Solicit the bankers' advice.** "Lending is not scientifically accurate," notes Dawson. "You want to get the people who told you no to help you figure out what it will take to get a yes from someone else." If they can tell you how to rework your business plan or can offer specific suggestions (for example, lease a machine rather than buy it), you'll avoid a lot of needless head banging. ***—B. G. P.***

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK; ILLUSTRATION: NORMAND COUSINEAU

BUSINESS FOR SALE

MINOR-LEAGUE BASEBALL FRANCHISE

THE BUSINESS A Class A minor-league baseball team in the Southeast—a team so prized by its home city that the stadium is maintained for free. The franchise's 25 players are "free," too—paid and equipped by its major-league affiliate (in this case, a highly visible club). The rest of the operation includes seven full-time employees and up to 100 game-day workers. Revenues come mainly from ballpark concessions and novelties (42%), ticket sales (28%), and advertising (21%).

FINANCIAL SUMMARY

	1989	1990	1991*
Gross revenues	$887,000	$1.1 million	$1.2 million
Net profit before taxes & owner compensation	profitable**	profitable**	profitable**

* Projected

** [illegible]

PRICE $2.5 million to $3 million

OUTLOOK Minor-league franchises almost never make money operationally but almost always do when it comes time to sell. Baseball remains America's best-loved sport, and cachet begets cash—here in the form of consistent asset appreciation.

PRICE RATIONALE While major-league franchises sell for anywhere between one and two-and-a-half times gross, minor-league transactions often violate even those almost uselessly vague multiples. Reportedly, only two Class A teams have fetched more than $3 million; insiders say most go for between $1 million and $2 million these days. This team's sweetheart stadium lease, gross revenues, and consistently large draw make it a big hitter by minor-league standards. But the price still looks ambitious—few expect the owner will get it.

PROS Baseball clubs—even minor-league ones—are a limited resource, and as franchises go, this one is strong: great fan demographics, an excellent attendance record, and a perennially popular major-league affiliate. Besides, they're fun. Doesn't this opportunity speak to the George Steinbrenner, Bill Veeck, and Charles O. Finley in all of us?

CONS Judged strictly as a business, this enterprise—like every other baseball team—is overvalued. The real question for would-be buyers: how expensive do you like your toys?

—Alessandra Bianchi

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Bob Richmond, 602-483-8224.

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Inc.®

THE MAGAZINE FOR GROWING COMPANIES

SHOULD YOU START YOUR OWN BUSINESS?

REAL ENTREPRENEURS TELL YOU HOW TO MAKE THE RIGHT DECISION
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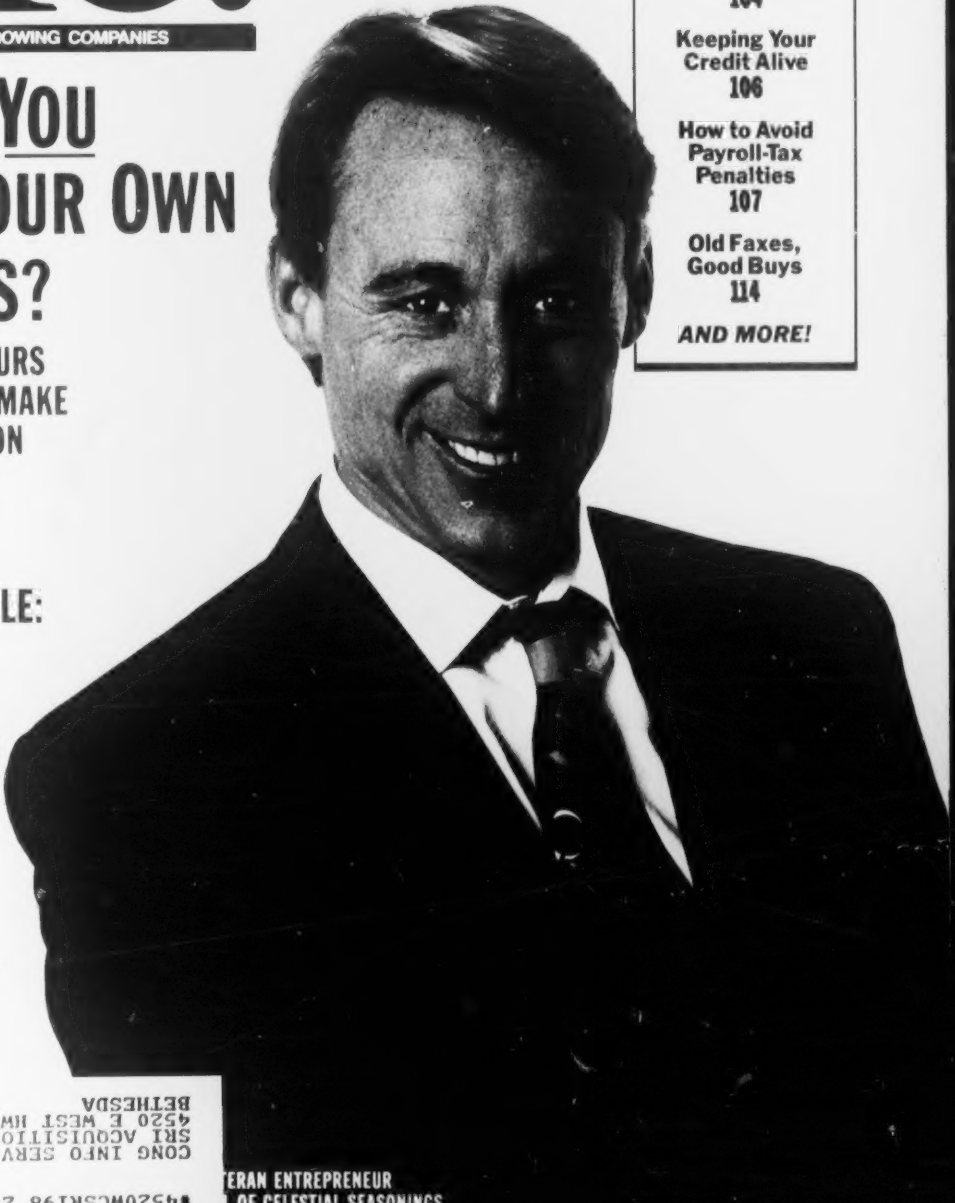

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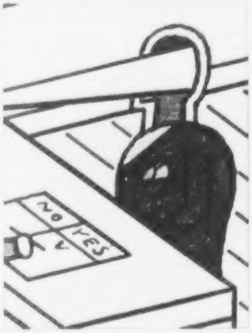

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COVER PHOTOGRAPH
by BONNIE SCHIFFMAN,
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RESULTS FROM
NOVEMBER

The Inc. FaxPoll™

ARE PARTNERS BAD FOR BUSINESS?

Yes . . . and no. Most of you saw some good in partnerships, but the majority felt the personal costs ultimately outweighed all benefits.

59%

YES

IS PARTNERSHIP A BAD WAY TO RUN A BUSINESS?

No

39%

This is obviously an emotional, volatile, and very personal issue. Nearly all of you who responded said you have a partner now or have had one at some point in your career, and you spoke of the experience in very personal, familial terms—though only 20% of you are actually in partnerships with family members.

Those of you who disliked partnerships focused on the souring of personal relationships as the main reason for your opinion. Some told stories of rampant lies and deceit, while others simply spoke of differing priorities: "Too much time is spent on partnership problems and structure, which diverts the focus from the business," said one.

Surprisingly, very few of you who have little confidence in partnerships mentioned money as the reason. Only 6% felt the dilution of equity was a good reason not to take on a partner. But several of you did refer to the costs of a partnership's breakup: "Dissolving my partnership was expensive and emotionally draining. The attorneys were the only winners."

A number of you chastised us for phrasing our questions as if this were a black-and-white issue, and perhaps you are right. To prove your point, a significant percentage of the antipartnership group still chose to weigh in on "Why Are Partnerships Good?" And those who supported partnerships also gave us input on their darker side. For instance, among those of you who felt partnerships were a good way to run a business, 18% voiced serious doubts about whether the inevitable personal feuding was worth it.

WHY IS PARTNERSHIP BAD?	
Personal conflicts outweigh the benefits	60%
Partners never live up to one another's expectations	59%
Companies function better with one clear leader	53%
Dilutes equity too much	6%
You can't call your own shots	6%

WHY IS PARTNERSHIP GOOD?	
Spreads the workload	55%
Spreads the emotional burden	41%
Buys executive talent not otherwise affordable	40%
Spreads the financial burden	33%
Makes company building less lonely	26%

Those of you who said partnerships were beneficial clearly feel that benefit lies in spreading the burdens—emotional, financial, and operational—of entrepreneurship. "It's nice to know that when one partner is out of the office, the other can handle things," was a frequently heard response. Even among those not in favor of partnerships, 13% volunteered that burden sharing was an advantage.

Forty percent of the propartnership group said partnerships were great for infusing a company with executive skills that would be hard to come by through hiring. "A good partner will allow for faster growth for the business," said one; "We were successful because of our complementary talents," offered another. Still, on that point, at least one of you warned that taking on partners was an inefficient and risky way to build your talent pool: "Don't take on a partner if you can hire someone to do the same thing."

A number of you stressed the importance of establishing certain goals up front for anyone who chooses to be in a partnership. "It's a great business form when the partners take the time to get their legal/ethical stuff clarified and aligned at the start."

In the final analysis, it was your perception of the equality of your partnerships that most strongly colored your opinions. Of those who characterized partnerships as bad for business, the majority (75%) said they were or are in partnerships in which one or the other partner is perceived as running the company. Of those who characterized partnerships as good, the majority (60%) said they were or are involved in "equal partnerships." ❑

IN YOUR PARTNERSHIP, WHO REALLY RUNS THE COMPANY?	
You	52%
Equal Partnership	39%
Your Partner	9%

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(MARKET RESEARCH, from page 99)
set up smaller units of customers and people from Specialized who took notes. In a written survey, each dealer ranked the color and overall look of some 40 bikes on a scale of one (low) to six (high), keeping in mind Specialized's image. Then the whole group discussed the scores.

After: Do an immediate debriefing back at headquarters, urges Vincent. If too much time passes, "interpretations start to creep in." Breede believes many companies don't take into account how group dynamics can affect feedback, so he also puts great stock in the individual dealers' written surveys. Based on feedback, Specialized winnowed the 40 possible bike designs down to 26. Also, Breede says, by listening to customers' observations—some said, for example, that fluorescent colors clashed with their perception of the Specialized image—"we got a clearer vision of who they thought we were."

Hosting roundtables isn't cheap. Specialized spends $800 and up per customer. But president Mike Sinyard figures, "if you fix just one direction, you've saved about $100,000 in R&D costs"—plus millions more in inventory.

Those on a tighter budget might consider the approach of the Fox Valley Spring Co., an Appleton, Wis., spring manufacturer with about $1 million in sales. Each year the company sends to key customers and prospects a detailed questionnaire, according to co-owner Kay Krebs. The results of Krebs's most recent survey told her that some key customers were having service problems; they also told her how those customers ranked the competition, and what they thought of Fox Valley's products. Total cost? About $5,000 to design, mail, and tabulate the survey. Ultimately, Fox Valley plans to use the results as fodder for in-person roundtables.

The benefits of any well-planned approach to gathering customer feedback are clear. For Specialized, preseason orders for 1992 bikes outpaced any previous year's. And that's for a company whose sales have already grown by more than 200% since 1986.

—*S. G.*

COMPENSATION

Rethinking Quotas

IN THE BEGINNING IT MADE sense to pay your salespeople using a straight revenue-based quota system. After all, the goal was to sell, period. Now profits mean as much as or more than volume. Yet if you're like most CEOs, you still pay your salespeople the old way, on sales volume alone. (See chart.)

Rick Rose, president of Dataflex, has devised a more balanced compensation plan that feeds corporate goals and enables him to more equitably rank the 13 salespeople at the Edison, N.J., company, which resells and maintains PCs and peripherals.

Borrowing from Big Blue, Rose created a balanced performance quota (BPQ). "In any sales force, you have multiple things going on—maintaining old accounts, going after new business," Rose notes. "The BPQ lets people compete despite different responsibilities."

For example, for a new account rep at Dataflex: hitting the goal of landing x new accounts is worth 40% toward quota; hitting y gross profit margin (sales minus cost of goods sold, divided by sales) is worth 40%; and bringing in z in revenues, 20%. But for a territory rep (the next level up), the BPQ differs significantly: the gross-profit-margin goal is worth 50%, the revenue goal 25%, and the product-mix goal—selling a range of company products and services—is 25%.

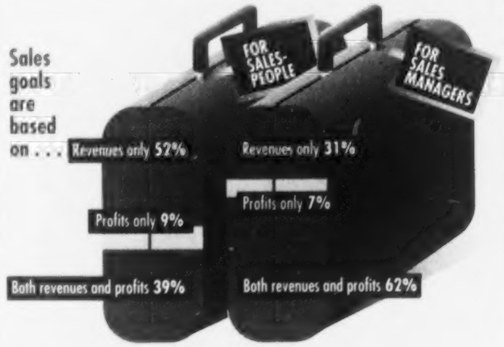
"When we do our sales goals each year, we make the BPQ the minimum requirement," Rose says. Dataflex's commission structure (all salespeople work only on commission) is based on reaching 100% of the BPQ. Most make or exceed it, he reports. There's no cap. "The more they exceed their BPQ, the more they make." The payoffs of the BPQ are

- **Increased profit margin.** While other companies focus on revenues only, Rose pays strict attention to gross profit margin. As a result, in the past three years Dataflex's gross profit margin rose to 17.2% in 1991, from 15.4% in 1988. The emphasis on margin helps salespeople decide how to use their time.
- **More profitable sales.** To underline the importance of selling from the company's product mix—namely services (maintenance, training, custom design work)—for the territory sales rep, Rose gave product mix the same weight as revenues. While Dataflex sells lots of hardware, "services are where we really make our margins."
- **Motivated sales force.** In the past three years sales have increased fourfold, from $23 million in 1988, to $93 million in 1991. "The corporate goal was 20% to 25% growth," Rose marvels. "That means a lot of salespeople did two to three times what was asked of them."

—*S. G.*

How Sales Goals Are Set

Sales executives are accustomed to measuring the success of their sales force in terms of volume — such as total number of calls or total revenues. Old habits are hard to break: less than half the companies recently surveyed said they take profits into consideration when setting sales goals and evaluating the performance of their salespeople.



Source: "Sales Productivity in the 1990s," a survey of 300 sales executives, 76% with 99 or fewer salespeople. Learning International, Stamford, Conn., 1991.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

(*COMPENSATION, from page 103*)

starts with 50 points. Each month NDI's employees receive their personal calculation for the previous 30 days. If the employee ends up with a positive number, he or she receives a bonus check. Gordy made each bonus point worth $1 last year. Some employees earned more than $1,000 in bonuses for the year, on a salary of about $12,500. Gordy hopes to beef the bonus points up to $2 each by 1993.

This plan has had a dramatic effect on the company. NDI's 33 employees are supporting revenues of $3.3 million, although it took nearly 50 people to produce $1 million worth four years ago. The bonus dollars awarded have increased almost every month because employees are taking less time off from work and reworks are at a minimum. Plus, NDI has not lost any designers—who take the longest to train—in two years.

—E. E. S.

EMPLOYEE TESTING

T or F? Honesty Tests Really Work

INC.'S "SCOUT'S HONOR" honesty poll (Managing People, September 1991) produced some passionate responses. We were emphatically advised about proper behavior and counseled about how to pose better queries. (See chart, below right.) The first thing we learned about honesty quizzes is that they can provoke a lot of resentment among test takers.

We've also learned that even seemingly irrelevant questions can pose problems for less than honorable test takers. "The content of items really doesn't make any difference," explains Dr. David Arnold of Reid Psychological Systems. "We may have an item that says, 'I would really like to try skydiving.' It's hard to come up with why that has any connection to honesty in the workplace. But we may have research that shows people with high levels of integrity say they would like to try skydiving."

So how well do skydiving questions weed out the undesirables? Well, they're no panacea. According to Arnold, Reid correctly classifies test takers only 80% to 85% of the time. It errs in both directions. Seven percent to 10% of the people you hire based on the test will not be trustworthy, and 7% to 10% of the people you turn down because of it would have been good employees, says Arnold. Yet Dr. Wayne Camara of the American Psychological Association says: "We still find these tests work better than any other technique."

If you're thinking of using honesty tests, beware. Some have so little supporting research that their claims are almost fraudulent, says Camara. And although the three largest publishers (see Resources, below left) have loads of research behind their tests, think twice before buying a test on the strength of that fact alone. All tests must be carefully matched to your organization and the job.

The best way to pick a test is to hire an industrial psychologist, a labor lawyer, or an academic to evaluate the test that's best for you. But since that may cost you up to $100 an hour, you may want to do your own analysis. As a guide, consider Linda A. Goldinger, R. Michael O'Bannon, and Gavin S. Appleby's *Honesty and Integrity Testing: A Practical Guide* ($39.95 plus $4 for shipping, Applied Information Resources, P.O. Box 420281, Atlanta, GA 30342), which describes all the facets of honesty tests, reviews 40 tests, and includes a descriptive directory. Or the Association of Personnel Test Publishers' *Model Guidelines* ($10, 202-639-4314) for integrity tests. It doesn't critique specific tests, but it does tell you about how to select tests and interpret scores. *—E. E. S.*

▼ ▼ ▼ ▼ ▼

JUST HOW HONEST ARE YOU?

WE DON'T HAVE THE "RIGHT" answers to *Inc.*'s "Scout's Honor" honesty poll—those are proprietary, according to the test publishers from whom we purloined our questions. But we do have some bad news for the IRS. Not content to answer a simple Yes or No to Question 8, a large number of our respondents agreed with the reader who wrote, "Of course—I think that's called aggressive tax avoidance." Here's how *Inc.* readers compare with one another on the questions:

	AGREE	**DISAGREE**	**UNDECIDED**
1. It's OK to take something from a company that's making too much profit.	—	97%	3%
2. Stealing is just a way of getting your fair share.	—	100	—
3. If I'm passed over for a promotion, it's OK to take things from work to get back at the company.	—	100	—
4. When a store overcharges its customers, it's OK to change price tags on merchandise.	—	97	3
	NO	**YES**	**UNSURE**
5. Do you always tell the truth?	83%	15%	2%
6. Did you ever think about committing a burglary?	70	30	—
7. If you could get into a movie without paying and not get caught, would you do it?	70	29	1
8. Is it OK to get around the law if you don't actually break it?	27	61	12

RESOURCES

Three Testing Goliaths

Experts may criticize honesty tests, but almost everyone agrees that the three largest test publishers have well-documented research. Here's who the honesty-test giants are:

- Reid Psychological Systems, The Reid Report (312-938-9200). An order of 10 to 24 tests costs $17.50 per test and includes scoring services.
- The Stanton Corp., The Stanton Survey (800-528-5745; 704-552-1119 in North Carolina). Cost: $14 per test (scored over the phone) for an order of 25 or fewer tests; $7.50 per test (scored by an on-site computer) for 500 or more tests.
- London House, The Personnel Selection Inventory (800-221-8378). Depending on which version you order, the PSI costs from $8 to $18 per test for a minimum order of 25 tests. Price includes scoring and telephone consulting services.

—E. E. S.

BUSINESS FOR SALE
NORTH CAROLINA RACQUET CLUB

THE BUSINESS The largest facility of its kind in the southeastern United States, this club has 600 members: 20 outdoor and 9 indoor tennis courts (generating 77% of revenues); a Nautilus fitness center and an aerobics room (18%); a café; a pool; a pro shop; and three air-conditioned racquetball courts, all spread across 12 verdant acres. The owner, who opened the club nearly 20 years ago, wants to change careers.

FINANCIAL SUMMARY

	1989	1990	1991*
[illegible]	[illegible]	[illegible]	[illegible]
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PRICE [illegible]

OUTLOOK Mixed. Exercise remains hip, especially among gracelessly aging baby boomers, and tennis, after slumping in the 1980s, is coming back. But in these more downmarket times, health clubs themselves are being threatened by such low- or no-price alternatives as the YMCA and your local municipal park, and club failure rates are 50% worse than they were a decade ago. Still, this club boasts margins (23% recast net) that most others (industry average: 7%) can't touch.

PRICE RATIONALE In terms of its size and range of facilities, this is a lot of club: nearly $3 million in hard assets alone. But unless you're looking for your own private playground, you're buying the club's income-producing potential, not its hard assets. Experts say clubs like this typically fetch between 3 and 6 times net operating income, which makes this price—18 times earnings—appear, well, ludicrous. What's the deal? Several advisers wondered whether all those tennis courts represent the "highest and best use" for all that land.

PROS There *is* room for expansion, and it's got to be good for the soul to spend workdays around people having fun. Couldn't be bad for the body, either.

CONS The price. The low gross. The price. The stiff and plentiful competition in the club's home market. And, uh, *the price.* —*Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

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GOOD FORM: THE ELEMENTS OF THE PERFECT DIRECT-MAIL PITCH

Inc.®
THE MAGAZINE FOR GROWING COMPANIES

'SMART' START-UPS

WHY TODAY'S NEW BUSINESSES HAVE A WHOLE NEW LOOK

COMPANY PROFILE: Maintaining Peak Performance over Time

ROAD WARRIORS: How to Get Face-to-Face with Your Customers

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by
JAMES SCHNEPF

RESULTS FROM
DECEMBER

The Inc. FaxPoll™

IS BURNOUT KILLING YOU (AND YOUR BUSINESS)?

Yes—although each of you had a different definition of burnout. Some talked about personal stress, while others treated this poll as a referendum on the recession and the state of the economy.

FEELING BURNED OUT?

Yes	62%
No	38%

A lot of you have just about had it with the process of starting and growing a business. "I thought over the years I would work fewer hours. I find myself working harder," complained one. "I resent the time my business takes away from my family and personal life," said another. Some offered suggestions for learning to cope: "We need to learn to relax. More hours does not translate into high productivity." Ultimately, someone suggested, burnout may be a by-product of a bad match. "If you are feeling burned out, you may have gone into the wrong business." Happily, very few of you reported that you had no one to turn to (5%). Many of you use relationships at home and at work to stem the tide of stress. There also seems to be a lot of networking going on, as 52% of you turn to other business owners. Relatively few of you talk to your customers about what's wrong with your business (17%). One major resource that seems to be overlooked is therapy. Perhaps there's still a stigma attached. But, as one of you put it, "If it weren't for therapy, I'd be screwed!"

The cause of all this burnout seems to lie in waning sales and profits, which are in turn caused by the downturn in the economy. Not surprisingly, those of you who weren't burned out were more likely to report increased sales (59%) and profits (46%). Quite a few of you focused on the recession in your comments. "I have never experienced such a bad business environment" was a typical comment. "People are dropping like flies—companies, too!" "I've never struggled so hard or been so concerned for our country's economy." All those concerns divert attention from other areas. "The shift to cost cutting kills new revenue ideas."

HAS YOUR BUSINESS UNDERGONE ANY OF THE FOLLOWING CHANGES IN THE PAST TWO YEARS?

Decreased profits	58%
Decreased sales	54%
A cost-cutting campaign	53%
Increased sales	38%
Layoffs	37%
Increased profits	29%
Decreased employee hours	25%
Other	4%

WHAT ARE YOUR MAIN BUSINESS CONCERNS?

	TODAY?	TWO YEARS AGO?
Increasing sales	54%	64%
Surviving	42%	24%
Profits	41%	43%
Cutting costs	24%	15%
Securing adequate capital or credit	19%	25%
Keeping my work force happy	19%	25%
Other	7%	6%

Have things gotten worse lately? It would seem so. While profits and increasing sales remain among your primary business concerns, a larger percentage of you now see survival as a much more important issue than you did two years ago (42% versus 24%). Among those who reported feeling burned out, survival is the top concern today (55%). Ouch. No wonder you're feeling the crunch. Some of you couldn't see any relief in sight: "It's going to get worse, too!" Others took a more cavalier approach: "The period 1979 through 1981 was a recession. This is more like a burp." At least one respondent chalked the whole thing up to experience. "We're going to be stronger in the long run—we're learning how to survive."

51%

YES

DO YOU SENSE THAT EMPLOYEE MORALE IS LOWER THAN IT WAS TWO YEARS AGO?

No

49%

Is employee morale at a low ebb? Your answers were split pretty evenly, although the scales seemed to tip when it came to top managers (as opposed to owners, CEOs, and vice-presidents), who are presumably closer to employees on a day-to-day basis—68% of them reported lower employee morale. Those who said they felt burned out tended to answer yes to low employee morale (66%), while most of those who said no to burnout also said no to low morale (78%). While no causal relationship can be assumed, a key way to keep burnout in check may be to keep employees happy, thus lessening the drain of being surrounded by negativism—admittedly, no mean feat. As one of you put it, "It's very difficult to keep motivating myself and others."

THE INC. FAXPOLL™ IS SPONSORED BY XEROX

(SALES TRAINING, from page 93)

a new way to "turn complaints around" during actual sales calls, then reporting back to the class. The program also includes instruction on time management, etiquette, and communication skills (such as writing better letters).

About 12 of the 15 salespeople at Octocom have been through K Training, which consists of five one-day sessions over a period of three months. And the payoff has been evident. One junior salesman improved his performance dramatically by using silence and counter-objection techniques he had learned. The beauty of the approach, says Davison, is that "it's continual and self-checking." —*S. G.*

RESOURCE

Catalog Software

Some catalog houses are saving money by doing more in-house. These days that's easier to do, given the proliferation of catalog software that integrates the tasks of order entry, fulfillment, inventory, list maintenance, and response analysis. *The Guide to Catalog Management Software* (215-576-5000) makes picking a package much less daunting. Written by *Catalog Age* software reviewer Ernest Scholl, the guide is available in three volumes, organized by hardware type: microcomputer ($95), Unix/Pick ($145), and minicomputer ($295). The volume on micro software ranks 10 programs and presents a detailed analysis of each, along with sample screens and reports. —S. G.

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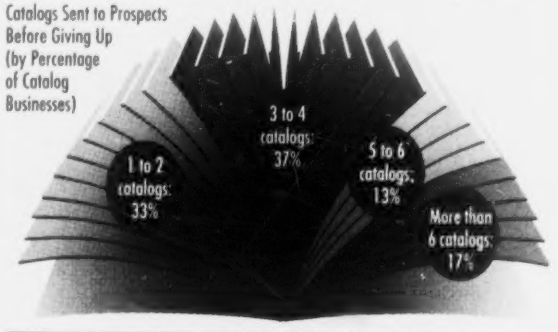
PROSPECTING

How Much Is Enough?

Catalog maverick Paul Hawken cautions, "There are no benchmarks," about the optimal number of catalogs to mail before giving up on a prospect. "It's all a value call." When looking at mailing costs, catalog businesses have to consider their average order and how customers behave once they come aboard. "What's the lifetime value of the customer? That determines whether you should spend more or less," says the founder of Smith & Hawken, in Mill Valley, Calif.



Source: "1992 *Catalog Age* Report" on catalog businesses, 43% with sales of less than $1 million; Stamford, Conn.

DIRECT MAIL

Fighting the War on Postage

THE RISE IN POSTAL RATES has taken a bite out of small and large catalog houses alike. But a number of catalog businesses are biting back. Some marketing tactics to offset the high cost of mailing:

Rue de France, a Newport, R.I., catalog house specializing in lace curtains, is sending out fewer catalogs—even to its best customers and better prospects, says president Pamela Kelley. Kelley no longer sends more than one catalog to those who ask for it in response to an advertisement, even though "inquiries" are regarded as hot prospects. Instead, Rue de France sends just one catalog—and two follow-up letters with special offers. It's more personal *and* more profitable, says Kelley. (See chart for a look at how many issues other catalog businesses mail.)

Calyx & Corolla, an $11-million mail-order flower business in San Francisco, has found alternatives to mass mailings. The company ran a promotion with Bloomingdale's for Mother's Day. The department store ran advertisements in the *New York Times* and the *New Yorker* ("Give Mother the Vase, and We'll Send Orchids"). Calyx & Corolla supplied the flowers. Both companies used the names of those who responded for a targeted mailing. Calyx CEO Ruth Owades says such joint promotions typically yield better response rates than cold mailings.

The Sharper Image, a high-tech-gadget catalog business in San Francisco, figures each duplicate name on its mailing list that's not caught by its computer is worth at least 10 bucks. So every person who calls the company to report receiving more than one catalog a month gets a $10 gift certificate. The company eliminates 1,000 to 1,500 duplicates a month that way. When you're mailing 2 million catalogs a month, it adds up.

Performance Bicycle, of Chapel Hill, N.C., slapped a large red "Last Catalog" sticker on its holiday issue, warning recipients that if they wanted to continue to receive the catalog, they had to become customers. To make it easier, the company also printed an 800 number for gift ideas on the cover of the catalog. The abrupt-warning tactic is helping Performance weed out everyone but the serious bike shoppers, says Burt O'Malley, head of marketing.

The Fox Valley Spring Co., a $1-million maker of industrial springs in Appleton, Wis., wanted to grease the wheels for its initial catalog mailing, so it first sent out a glossy postcard announcing, "A New Spring Company Has Sprung into Business." On the back was a written invitation to call for the company's catalog. The responses gave Fox Valley a targeted list for a more costly catalog mailing, and gave the company its first set of customers: 5% of those who received the postcard alone put in orders, and 10% of the postcard recipients called for the catalog. —*S. G.*

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

WORK FORCE

ADA Hiring Incentives

THOUGH THE AMERICANS WITH DISABILITIES ACT (ADA) MAY prove especially costly to small businesses (see "Preparing for the Americans with Disabilities Act," January 1992), you don't have to bear the brunt of the expenses all by yourself. The government will chip in, either through tax breaks or with financial aid. Read on:

- **Tax breaks.** Employers with 30 or fewer full-time employees or revenues of less than $1 million are eligible for the Disabled Access Credit (DAC, Section 44, Internal Revenue Code). To get it, they must spend $250 to $10,250 to comply with the ADA by removing barriers or installing interpreters, readers, and other forms of assistance to people with handicaps. The maximum credit is $5,000 a year.

Businesses may deduct up to $15,000 for making a facility or public-transportation vehicle more accessible, under Section 190, the Architectural and Transportation Barrier Removal Deduction.

For more information on these two tax breaks, contact Mark Pitzer at the Internal Revenue Service at 202-566-3292, or a local IRS office.

- **Hard cash.** A company that works with a local vocational-rehabilitation agency (funded by federal and state government under the Rehabilitation Act of 1973) can receive partial reimbursement for the wages of disabled employees. The amount and duration of the reimbursement is subject to negotiation. For more information contact your local vocational-rehabilitation agency, usually found under Rehabilitation or Vocational Rehabilitation in state-government listings in your phone book.

Under the Job Training Partnership Act, an employer can set up on-the-job training and be reimbursed for 50% of the first six months of the wages of an eligible disabled person. For more information contact your chamber of commerce.

More details on all of the above are available from the President's Committee on Employment of People with Disabilities (1331 F St., NW, Washington, DC 20004-1107, 202-376-6200) in its free booklet *Employer Incentives.*

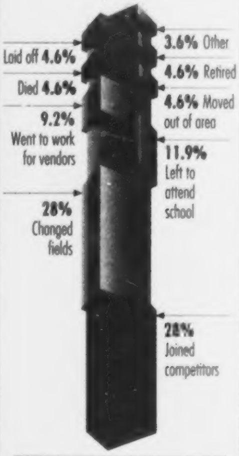
—E. E. S.

TURNOVER

Where Do Employees Go?

When employees depart Inc. *500 companies, they most frequently land in a competitor's company or in a different field altogether. The next most common destination is school, which also represents an exit from a particular industry. So employers might be able to cut turnover significantly by doing a better job of making sure the interests and goals of their hires are well matched with the industry itself.*

Reason employees left company . . .



Source: Based on a survey of *Inc.* 500 Conference attendees, June 1991

CHART: ROSS CULBERT LAVERY & RUSSMAN INC. NEW YORK

RESOURCES

Just How Independent Are Those Workers?

If you're confused about whether or not your independent contractors are indeed independent (see "Legal Briefs," below), consider that—

BNA Plus (800-452-7773, 202-452-4323 in Washington, D.C.), the Bureau of National Affairs' research arm, can provide you with resource material on the difference between employees and independent contractors, for $23 plus $5 shipping and handling.

Paladin (201-584-9488), a labor-relations consulting firm in Flanders, N.J., will send you a checklist of the 19 factors the IRS considers in evaluating a worker's status, for $5.

The IRS will rule on the employees in question if you file a Form SS-8 with the district director at your IRS district office. *—E. E. S.*

LEGAL BRIEFS

Protecting Independent-Contractor Status

IT'S WELL KNOWN THAT THE minimalist company's favorite worker—the independent contractor—is under assault by the Internal Revenue Service. The tax collector is hunting for an estimated $8 billion in payroll taxes forgone because workers have been misclassified. What's not so widely appreciated is that midsize and small companies are among the most vulnerable. "Larger businesses tend to know their rules better," says Janet Goldberg, a partner at Sachnoff & Weaver, a Chicago law firm.

Small businesses often don't—and they're more likely to let employees drift into intermittent working arrangements. Describing a worker as an independent contractor also saves companies a bundle: pension, group health, and workers' compensation expenses, as well as social-security and unemployment taxes.

The most common mistake employers make? "A lot of companies are treating workers as independent contractors, but they have no written agreement with them," says Suzanne McCarthy, also a partner at Sachnoff. Contracts should address the central issues that determine whether a worker is truly an independent contractor, and should specifically include—

- A statement that the independent contractor is not entitled to employee-benefits programs.
- A joint-severability clause stating that if part of the contract is struck down, the rest of it survives.
- Acknowledgment that the independent contractor is free to work elsewhere at any time.

The other most common mistake is for companies to assume that because a worker toils at home or maintains unusual working hours, that person is an independent contractor. Actually, such workers may be technically considered part-timers, eligi-

(INTERNATIONAL BUSINESS, from page 103)

to one of the biggest cost components relating to any foreign sale," says Mayorga. Before bidding on a foreign job, his salespeople must consult insurance brokers who live in the relevant country or are U.S.-based specialists in the region. The job isn't priced until a solid insurance quote comes in.

- **Taxes.** Because R&E requires its foreign customers to make payments in dollars directly to its Wilmington, N.C., headquarters, only U.S. taxes must be factored into foreign bids. "I was afraid we'd be overwhelmed if we had to worry about different tax laws and rates in different countries," Mayorga explains. For companies that don't follow this strategy, it's essential to add an accountant's estimate of foreign-tax liabilities to all price quotes.

—*J. A. F.*

INSURANCE

Making Insurance Cost Shifting Less Painful

WITH NO END IN SIGHT TO health-care-cost inflation, many companies have concluded there's no way to avoid some type of cost shifting—usually to employees, who must pay higher deductibles and a larger percentage of nonreimbursed expenses. (See "Cost-Containment Strategies," below.) And that can wreak havoc on employee morale.

Knox Semiconductor, a Rockport, Maine, manufacturer with 40 employees, opted for a more constructive approach: at the same time the company introduced insurance-cost-control measures, it began providing each employee life insurance, a mutual-fund savings account, and short-term and long-term disability coverage. And because of the unusual way the company financed those benefits, it wound up ahead in overall cost savings.

When John Morey, president of Knox Semiconductor, sat down to look at his insurance coverage in 1989, it was costing him $80,000 a year. "The same exact coverage for the same number of people was projected to cost $170,000 by 1991," he says. So with his insurance broker, he came up with cost-saving measures, which included partially self-insuring medical benefits, and a higher deductible for employees. Savings kicked in immediately. In 1990 the price of coverage stabilized at $80,000, and in 1991 it was $110,000.

To simultaneously finance the new benefits, Knox started contributing $6 per employee weekly into a mutual fund that's administered by the same insurance company that handles the rest of its coverage. Employees must contribute $6 as well, which is deducted from after-tax weekly salaries. "Of that $12, we use $5 to buy each employee a whole-life insurance policy," says Morey. The longer an employee works for Knox, the larger that death benefit will grow. Employees that leave the company take the policy with them.

The rest of the joint weekly contribution stays in the employee's mutual fund until he removes it to pay off his deductibles, nonreimbursed medical charges, or any other personal expenses. If employees decide to empty their accounts, they'll have to dig into their pocketbooks to pay off any medical bills the company doesn't cover.

"We spend a lot of time now making sure people understand the benefits of all the coverage we provide, including the paycheck protection that comes from disability coverage," Morey says. There are other benefits as well: the company has saved so much money through the new system, mainly thanks to its switch to partial self-insurance, that it can still afford to reimburse 80% of most workers' medical expenses.

—*J. A. F.*

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COST-CONTAINMENT STRATEGIES

A survey by the Society for Human Resource Management found that small and midsize businesses are trying a vast range of approaches to control their health-insurance costs. (For the percentage of companies trying each approach, see columns A.) Unfortunately, many of those approaches haven't yet proved very effective, as seen in the relatively low effectiveness ratings that employers who use each strategy provided. (For percentage trying the strategy who found it worked, see columns B.)

	Employ fewer than 100		Employ 100 to 500	
Cost-control measure	**A**	**B**	**A**	**B**
Precertification of admissions	45%	40%	62%	30%
Requiring second opinion	44	22	58	16
Improving employee awareness	35	13	48	15
Higher deductible	23	19	28	32
Special pretax spending accounts	17	67	27	40
Reducing benefits	15	19	18	27
Utilization reviews	13	13	32	34
Employee-assistance programs	12	5	25	19
Improving data analysis	12	0	18	19
Instituting HMO	12	53	23	29
Wellness/fitness programs	11	0	23	22
Preemployment medical exams	11	50	23	33
Instituting PPO	9	38	16	32
Choices/cafeteria-style plan	9	77	13	46
Requiring outpatient care	8	15	16	35
In-house medical service	3	0	3	29

Source: "Health Care Cost Containment Survey," Society for Human Resource Management, Alexandria, Va., 1990.

THE AMERICAN DREAM

BUSINESS FOR SALE—HAWAIIAN CHARTER YACHTS

THE BUSINESS A charter-yacht service selling vintage sailing experiences to visitors. Two elegant vessels, a 62-foot oak-and-teak "lady" and a 71-foot yawl of pine and mahogany, provide morning and sunset sails (which include diving and dining) seven days a week for up to 30 passengers per boat, at $56 to $115 per person. The five-year-old business caters to tourists and corporations, from the United States and elsewhere, advertising its services through tour desks and hotel tourist briefings. Payroll includes four key personnel and an operational crew of 24.

FINANCIAL SUMMARY

	1989	1990	1991*
Gross revenues	$1.15 million	$1.24 million	$1.20 million
Recast earnings before interest, taxes, depreciation, and owner compensation	$222,000	$224,000	$198,000

* projected

PRICE $2.9 million

OUTLOOK Trends in the Hawaiian charter-sailing business parallel the state's overall tourism fortunes, and after a rough 1991 (the Gulf War scared people off travel), the number of visitors to the islands is expected to resume its 5% to 8% annual growth rate in 1992. At last count, one-half of Hawaii's 7 million annual visitors could be classified as likely sail-cruise customers. There's plenty of competition for them—about two dozen operators sail from Honolulu alone—but this charter's profit margin is excellent.

PRICE RATIONALE The seller values the hard assets at $1.9 million ($1.8 million for the floating ones, $100,000 for office equipment and supplies). Experts suggest this is ludicrous, and that the market value of the boats alone would be closer to $200,000 apiece. Earnings multiples for charter-yacht businesses range anywhere from 3 to 12, and sources value this business at no more than 6.

PROS Sailor's delight: You'd be captain of splendid ships in a class by themselves. (One formerly belonged to Marlon Brando.) You'd be the beneficiary of recently negotiated contracts with 19 Japanese tour groups, which could boost revenues 30%. And you'd live in Hawaii.

CONS Sailors take warning: Hawaii's charter waters are infested with more than one kind of shark—the elements, the economy, fickle consumers, and cutthroat marketers would threaten to capsize your venture. Which is overpriced in the first place. —*Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

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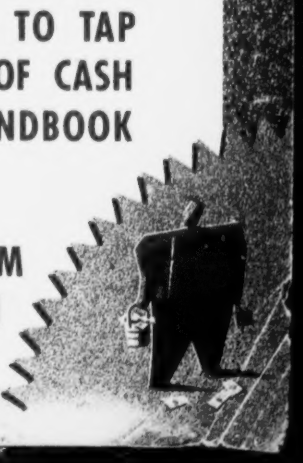

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by
MARTY BRAUN

RESULTS FROM
JANUARY

The Inc. FaxPoll™

IS YOUR BANK FAILING YOU?

Times are tough. Really tough.
And most of you say banks aren't making things any easier.

71%

No

ARE YOU SATISFIED WITH YOUR CURRENT BANKING RELATIONSHIP(S)?

YES

29%

One of you paraphrased Mark Twain, defining a banker as "a friend who lends you an umbrella and asks for it back when it looks as if it's going to rain." That certainly sums it up for most of you. No matter how long you've been in business or what your sales are or whether or not you are profitable, the vast majority of you are dissatisfied with your banking relationships. And nearly three-quarters of those who are not satisfied think their bad banking relationships pose a serious threat to their business and an impediment to growth: "They told me I had to stop growing or sell my company. They act like an adversary, not a partner."

Some *are* happy with their banks and offered tips on how to keep your bank interested in you: "We have relationships with two other banks—this keeps them all very interested in us." "It works both ways. Try to refer some business their way."

Changing banks doesn't seem to help. Of those who hadn't shopped around, 69% were dissatisfied. Of those who had, 74% were still not pleased. "There's no point in changing banks," one of you said. "The others are all the same." On the other hand, contact with the *same* person seems to be a predictor of how satisfied you are with your bank: of those who liked their banks, 52% hadn't had any change in bank contact over the past three years. Of those unhappy with their banks, 58% had experienced two or more contact changes.

HOW OFTEN HAVE YOU CHANGED YOUR PRIMARY BANK IN THE PAST THREE YEARS?	
Not at all	65%
Once	23%
Twice	8%
Three times or more	3%

HOW OFTEN HAS YOUR PRIMARY-BANK CONTACT CHANGED OVER THE PAST THREE YEARS?	
Three or more times	30%
Not at all	30%
Once	22%
Twice	18%

Banks are demanding more of you, no matter how long you've been around. In fact, it seems companies that are more than 10 years old are even *more* likely to have additional requirements. For example, nearly half the companies 10 or more years old have had to increase collateral—compared with 30% of companies less than 3 years old.

Some blame the banks: "I'm paying for their poor real estate investments." But many fault the regulators who have "overreacted to the S&L situation." One of you quipped, "I want to know why the feds, who are trillions of dollars in the hole, are running anyone's business." But whoever is responsible, as one of you put it, "banks blame auditors—they blame Congress—we take the hit."

A lot of you are simply turning away from banks: "We are being more creative in finding money elsewhere in retaliation for being jerked around at our bank." Those looking elsewhere seem to favor that familiar well of private capital, including family and personal resources. And the smaller the company, the more likely you are to turn to those sources. Of companies with revenues of less than $100,000, 67% reported obtaining private funding, compared with 33% of companies with revenues of more than $10 million. Smaller companies are also more likely to form strategic partnerships. Larger companies are more likely to turn to leasing companies, suppliers, and finance companies.

At any rate, there are many options worth looking into. If all else fails, there's always plastic. As one reader put it: "Without credit cards, my company would be dead."

—*Christopher Caggiano*

HAS YOUR BANK DONE ANY OF THE FOLLOWING IN THE PAST YEAR?	
Asked you to provide personal guarantees	75%
Asked you to file statements more regularly	54%
Reduced or pulled your line of credit	44%
Asked you to increase collateral	43%
Asked you to find additional equity	32%
Asked you to reduce borrowing	29%
Asked you to meet more stringent industry ratios	26%
Asked you to maintain a larger minimum deposit	19%

HAVE YOU SECURED CAPITAL FROM ANY OF THESE OVER THE PAST YEAR?	
Private sources	54%
Leasing company	19%
Supplier	15%
Finance company	10%
Customer	9%
Federal lending program	8%
Strategic partner	8%
Others	7%
Limited partners	6%
Insurance company	5%
Factor	5%
Distributor	4%
Thrift institution	3%
Foreign bank	2%

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PROSPECTING

Desktop Target Marketing

RENTING MAILING LISTS HAS LONG BEEN THE WAY TO REACH potential customers. But as direct marketers know, there are drawbacks to renting: you don't know exactly what you're getting, and you get only one shot at the list. Now you can take prospecting into your own hands with the help of some powerful new personal-computer programs.

MarketPlace Business, one of the most notable entries, contains on compact disc information on more than 7 million U.S. companies, culled from Dun & Bradstreet's national database of businesses. The Macintosh-based program allows marketers to target prospects based on location, type of business by SIC code (up to eight digits), annual sales, number of employees, and telephone area code.

What's more, MarketPlace Business lets you check out the quality of a list before you buy it. And once you pay for the list (the program deducts credits from the user's prepaid metered account), you can use the names repeatedly throughout the year. The program is well suited for repeat mailings to CEOs of small businesses. (Most companies in the database have fewer than 25 employees.) Although it is not designed to single out various titles within a company, it does allow you to export lists to your own database so you can manipulate the data.

While no list provider promises 100% deliverability, the MarketPlace Business database is reportedly better than 90% accurate, and the company offers a 60-day refund guarantee.

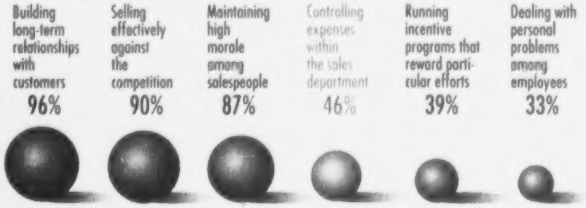
MarketPlace Business might not replace your list broker—but at a cost as low as 6¢ to 10¢ a name for unlimited usage, and considering the savings in time, perhaps it should. The program sells for $1,095, which includes four CD updates per year and 3,000 starter "credits," or names. The yearly renewal fee is $495; additional credits cost $500 for 5,000 names. Call MarketPlace Information at 617-894-4100. —*S. G.*

COST OF SALES

Are Sales Costs Killing You Softly?

Sales revenues are growing faster than sales expenses in 75% of the companies surveyed by Learning International, a training and business-research company in Stamford, Conn. But sales expenses are up in five out of six companies. The average increase in expenses over the past few years: 16.2%. Yet sales executives ranked "expense control" relatively low on a list of activities that affect sales productivity.

What activities affect sales productivity?
(by % of sales executives who claim activity has "major impact")



Source: "Sales Productivity in the 1990s," a survey of 300 sales executives, 76% with 99 or fewer salespeople. Learning International, Stamford, Conn., 1991.

PUBLIC RELATIONS

Pay As You Go PR

TOM BRANDON KNEW IT WAS time. Like the founders of many a young, promising venture, the CEO of Work Recovery, a $5-million publicly traded Tucson company, had an appealing product. Word-of-mouth publicity had gone a long way.

But outside of select hospitals, few people knew about Work Recovery or its $100,000 product, the Ergos Work Simulator, a machine that tests a person's physical capacity to work.

Still, Brandon was wary of public-relations firms. After interviewing numerous agencies that demanded up-front fees and fat retainers, he picked Primetime Publicity & Media Consulting, a Mill Valley, Calif., PR firm that charges only for the stories it places. "Primetime was willing to be held accountable and to be paid as it performed," says Brandon.

Results-only PR isn't new. Primetime was founded 10 years ago, and there are a handful of other PR firms that use a rate card. (Roughly speaking, a print feature will cost anywhere from a third to half the price of a color ad in the same publication. A 60-second feature on CNN will run about $9,000.) It's also not for everyone. Traditional PR firms that charge monthly retainers also offer more services than Primetime. With less than $5 million in sales, and a home-office crew of six, Primetime is smaller than many of its clients. Therefore, the company depends on CEOs to tell it what they want to say and where.

With a lot of input from Brandon, Primetime forged a strategy that last spring got Work Recovery airtime on several local TV shows and onto the pages of the *Wall Street Journal*, *Fortune*, the *Boston Globe*, and other widely read publications.

The plan accounted for Brandon's goals of reaching a mass audience of potential customers and shareholders. Primetime's approach:

- **Make the reporter's job easier.** Work Recovery press releases presented several strong story angles, from the newsy to the more personal. (Both Brandon and his father had suffered debilitating injuries.) "You don't pitch the same story to every publication," says Primetime's media director Bob Cullinan.
- **Follow through.** Once a reporter showed interest, "we made it as easy as possible for the person to do the story," says Cullinan. That included lining up 70 centers around the United States where journalists could try the Ergos for themselves.
- **Know when to back off.** "With the *Wall Street Journal*, we just kept calling different reporters until we found a sympathetic ear," says Cullinan. "We gave the writer all the information and then called back just enough to work out the gray areas."

As a result of 10-plus "media hits," Work Recovery increased its shareholder base threefold, Brandon notes. And each time the company appeared in print or on TV, inquiries shot up. "This broke us out of the regional mold into the national arena." As for the folks at Primetime? They got paid. —*S. G.*

TAX STRATEGIES

Global Tax Tips

It takes some ingenuity for U.S. companies to protect against tax disadvantages when they do business overseas. (See chart below.) Some tips for the various stages of international expansion:

- **Export.** "This is the only type of international expansion that the U.S. tax code encourages through a tax incentive," says Robert Patrick, director of Price Waterhouse's international tax practice in Washington, D.C. Any export revenues earned by a company classified by the IRS as a "foreign sales corporation" will be taxed at a rate of about 29%, rather than the U.S. standard corporate rate of 34%.
- **Joint venture.** Because of combined potential taxes, U.S. companies with revenues from joint ventures with a foreign company might face *more* than the domestic 34% rate. To avoid that, Patrick advises, U.S. companies should own at least 51% of the joint venture, which frees them of the foreign-tax-credit limitation.
- **Foreign subsidiary.** When U.S. companies set up foreign subsidiaries, their overall tax rate may go higher than 34%, since foreign subsidiaries of U.S. companies get taxed by both the host country and the IRS. Patrick advises charging as many expenses as possible to the foreign subsidiary. Your subsidiary may then be able to take advantage of tax deductions offered by the host country, ideally offsetting the combined tax rates.
- **Foreign holding company.** If you're planning multiple European subsidiaries, consider incorporating in one country a holding company that owns and funds all those subsidiaries. Under 1992 European Community rules, that holding company will be exempt from a 10% to 15% withholding tax traditionally imposed by European tax authorities on any income distributed from a subsidiary of one nationality to a parent company of another. —*J. A. F.*

INTERNATIONAL BUSINESS

How Foreign Income Is Taxed

HERE'S SOME DISCOURAGING NEWS FOR COMPANIES interested in diversifying into international operations: Thanks to some financial disadvantages imposed by U.S. tax laws, it may be tough to compete on price and services against corporations headquartered in Europe, Japan, and Canada. According to a recent survey by Price Waterhouse, the United States' effective tax rate* on foreign income is, on average, a hefty 6% higher than that of competing countries. Combine that with the tax surcharges many foreign countries apply to funds earned in their countries, and overall tax rates may rise higher still—making it clear that U.S. companies must aggressively plan to control international tax bills.

PARENT CORPORATION HEADQUARTERS	EFFECTIVE TAX RATE ON FOREIGN INCOME
UNITED STATES	35.2%
GERMANY	31.8
CANADA	31.1
JAPAN	29.5
UNITED KINGDOM	29.3
NETHERLANDS	28.6
FRANCE	25.1
AVERAGE, EXCLUDING U.S.	29.2

*The effective tax rate is measured as total federal income taxes paid to home and host countries as a percentage of pretax source-country earnings and profits.

Source: "U.S. International Tax Policy for a Global Economy," Price Waterhouse, April 1991.

COLLECTIONS

Making Salespeople Collect

WHEN STEVEN WILSON STARTED his Bettendorf, Iowa, company, Mid-States Technical Staffing Services, six years ago, he made an unusual decision: to require his six salespeople to assume primary responsibility for collecting funds due from their own clients. The results have been impressive. With revenues now around $4 million, Mid-States—which leases engineer services to corporate customers—averages a 20-day collection cycle. And the company has failed to collect on only two invoices, both in situations in which clients declared bankruptcy.

On a weekly basis, the company sends invoices to clients for all services performed during the past week. "The first invoice goes to the salesperson as well as the client. Then we encourage the salesperson to track that invoice, so that he learns exactly where it will flow within the client's organization—which includes details like who must sign off on it; what backup information will be required; and how soon, during the normal course of action, we can expect to get paid," explains Wilson.

The goal is to identify potential glitches early. "Our terms are net 10. If we're slated by a client's accounting department to be paid at, say, 25 days, our salesperson has the option," Wilson says, "of going to the client and imposing a rate increase if the company can't pay us as quickly as we demand. Usually, the client responds by putting us on an accelerated payment schedule."

Every week each member of the sales force gets an individualized report from the accounting department, which updates the payment status of all the rep's invoices, by client. "Every new salesperson we hire is trained to pick up early warning signs from those weekly reports," says Wilson. Those might include a sudden stretch-out in a customer's typical payment procedures, or an invoice that appears lost in cases in which earlier and later bills have been paid.

At any sign of trouble, the salesperson gets in touch with the contact person within the client corporation. On those rare occasions when invoices become six weeks overdue, Mid-States' salespeople personally notify their contacts that services will be halted by the following Monday.

"The sales force told me early on that they didn't want our accounting department approaching their contacts in a potentially negative manner," says Wilson. "This way sales reps can do everything possible to preserve good relations with their clients." And salespeople don't seem to jeopardize rapport with customers by chasing after invoices: "People who contract for our services value them, so they don't blame us for wanting our money," says Wilson. "They usually blame their own accounting people for failing to pay on time."

Another reason salespeople like the system: Wilson calculates sales commissions, in part, on the speed at which an individual's invoices get paid. "This helps convey an important lesson to our salespeople," he says. "What makes a business successful is profits, which include speedy collections, and not just sales." —*J. A. F.*

BUSINESS FOR SALE—SEASIDE ANTIQUES AND CRAFTS SHOP

THE BUSINESS Charming 1,275-square-foot, six-year-old retail boutique, filled with one-of-a-kind antiques, curiosities, and handcrafted furnishings, located in the California coastal community of Cambria (population 5,000), not far from Hearst castle. The owner and her son do the risky work of buying the store's merchandise, and operate the store seven days a week (10 a.m. to 6 p.m.) with the help of two part-time employees.

FINANCIAL SUMMARY

	1989	1990	1991*
Gross revenues	$280,000	$[illegible]	$[illegible]
Recast earnings before interest, taxes, depreciation and owner compensation	$80,000	$[illegible]	$[illegible]

* [illegible]

PRICE $230,000

OUTLOOK Businesses like this aren't large, but the number of them is. At last count there were 30,000 antiques and collectibles dealers in the United States, as well as 45,000 specialty gift retailers—ringing up estimated annual sales of $267,000 per store. This operation, in what is reputedly the best location in Cambria's historic east village, has virtually no competitors and has cemented strong purchasing relationships with half a dozen local artists—an arrangement that boosts gross margins by all but eliminating inventory shipping costs. Its 44% net margin before owner compensation is outstanding; give yourself a salary, and you should still be comfortably above the industry average of 10%.

PRICE RATIONALE Price includes approximately $107,000 worth of inventory, a 1986 Dodge van used for deliveries, and a lease (up for renewal in 1994). Insiders say pricing schemes are virtually nonexistent in this sort of cottage industry filled with right-brain individualists. Three to four times earnings, however, would be a reasonable starting point, making the asking price of this store appear fair.

PROS A chance to become the arbiter of taste in a lovely seaside village—where you'll find plenty of visitors ready to debate the finer points of trompe l'oeil and Old World refurbished iron furniture. And since the store's success depends on its owner's talent for buying what will sell, if your taste is good, you will come up a winner.

CONS If your taste is bad, you won't. —*Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

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Inc.

THE MAGAZINE FOR GROWING COMPANIES

'HANDS ON'

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SPECIAL ISSUE: THE INC. 100

AMERICA'S FASTEST-GROWING SMALL PUBLIC COMPANIES

PLUS:

GOOD FORM: CUTTING HEALTH-CARE COSTS

COMPANY PROFILE: GROWING YOUR OWN KEY EMPLOYEES

FIRST PERSON: FATHERS AND SONS IN BUSINESS

THE ANATOMY OF A START-UP

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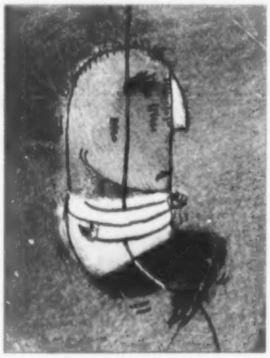

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RESULTS FROM FEBRUARY

The Inc. FaxPoll™

ARE YOU TOO BUSY TO BE SMART?

An alarmingly high percentage of top executives believe they don't have enough information to run their own companies.

HOW DO YOU SPEND MOST OF YOUR WORK TIME?	
Managing people	54%
Selling	51%
Developing new ideas	44%
Putting out fires	41%
Negotiating deals	35%
Learning about your industry	23%
Day-to-day operations	15%
Learning to manage better	12%

HOW MUCH OF YOUR TIME DO YOU SPEND DEVELOPING NEW IDEAS?	
About a quarter	47%
Very little	30%
Half	16%
More than half	6%
All	1%

DO YOU KNOW ENOUGH TO RUN YOUR COMPANY EFFECTIVELY?	
YES	61%
No	39%

It's surprising how many of you feel inadequate for your task. And what's really startling is how far up the corporate ladder the knowledge gap creeps. Thirty-one percent of owners and founders, 38% of CEOs and presidents, and 44% of top managers said they didn't know enough to run their companies effectively. Then again, as one of you said, "Does anyone really?" No matter what you do to try to keep abreast, "I am always behind and always over my head." That actually may provide some comfort to those of you who find your knowledge wanting. As one put it: "I thought I was the only one that felt I was losing control of my business and my mind."

What does the confident businessperson's day look like? Well, those of you who feel on top of things spend more time than those who don't managing people (60% versus 47%) and negotiating deals (38% versus 30%), and less time selling (47% versus 58%) and putting out fires (36% versus 51%). Not surprisingly, those who think you know enough to run your businesses spend more time developing new ideas than those who don't (50% versus 36%). Overall, however, only 23% of you claimed to spend more than a quarter of your time on new ideas. "All resources, financial and managerial, are dedicated to survival in these difficult times" was a common refrain. Others suggested that might be a little shortsighted. "Current economic conditions have made planning absolutely necessary." Those whose companies are still in the start-up phase seem to have the least time for brainstorming. But, hey, don't knock it. According to one reader, "Putting out fires and developing new ideas are not competitors—a fire is a source of new ideas."

There are too many information sources competing for your attention, so you try to seek out specific, useful, cost-efficient sources of information. Magazines lead the list, while just as customized but more expensive sources like conferences, trade shows, and videos are used less frequently.

When we asked about the source of the biggest idea you had in the past year, the answers were predictable: yourself, customers, magazines, and employees, in that order. Other answers ranged from the disarmingly honest—desperation, a lawsuit, "I'm not sure I had any big ideas last year"—to the humorous: dreams, a rotisserie baseball league, and a conversation with a stripper. But possibly the most telling was the reader who said his biggest idea came from his wife: "We decided I should retire."

Here again you focused on hands-on, practical information. Who's got the time to learn anything new when you're doing all you can just to stay afloat? You want to know what's going to help you right now with sales, cash flow, and managing your work force. And information on what your competitors are up to wouldn't hurt, either. Context seems to be less important to you; you're less interested in knowing more about the national or global economies or nonbusiness information. One of you aptly summed it up: "So much information, so little time."

—*Christopher Caggiano*

WHERE DO YOU GET MOST OF YOUR IDEAS?	
Magazines	50%
My customers	46%
My employees	29%
Books	23%
My competitors	20%
Industry conferences	19%
Myself/brainstorming	16%
Trade shows	14%
My vendors	13%
My senior managers	13%
Newspapers	12%
Management conferences	9%
Larger companies	9%
Audiotapes	5%
Videotapes	1%

WHAT DO YOU MOST NEED TO KNOW MORE ABOUT?	
Selling and marketing	53%
Finance/cash flow	48%
My competitors	35%
Managing people	35%
My industry in general	30%
Computer technology	28%
The economy in general	10%
The international economy	8%
Nonbusiness information	7%
Other	5%

Note: Multiple responses account for total percentages above 100%.

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AMERICA'S FASTEST-GROWING SMALL PUBLIC COMPANIES

THE INC. 100

At a time when big-company layoffs have grabbed the headlines, it's useful to recall that the economy has yet to fall into a black hole and—barring a collision of the planet with Mars—won't. That circumstance owes not to the prospect of large companies healing themselves but to the relatively unknown companies that turn up on this list each year, sprouting like hardy perennials through the rubble of corporate America. A free-market economy, like nature, abhors a vacuum. The

The Average Inc. *100 Company*

	1987	*1991*
SALES	$4,110,790	$84,043,320
EMPLOYEES	132	896
PRODUCTIVITY*	$31,159	$93,799
PROFITABILITY†: 16%+	11	19
11%–15%	4	9
6%–10%	7	16
1%–5%	18	29
Break-even	3	1
Loss	57	26

**sales per employee* *†no. of companies*

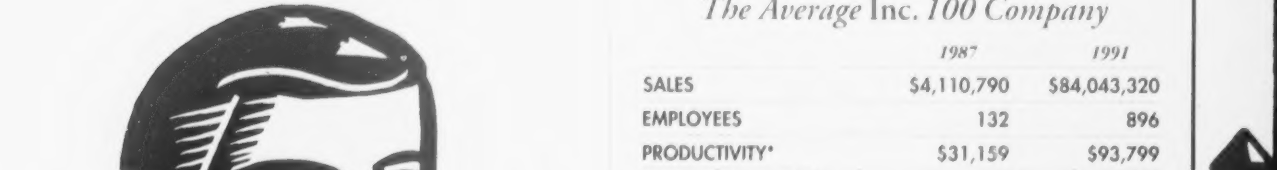


ILLUSTRATION: ANTHONY RUSSO

more things change, well, the more companies doing new and interesting things are born. *Sic transit* the *Fortune* 500.

The *Inc.* 100 is more than a portrait of dynamic growth. It is also a leading indicator of change—technological, social, and regulatory—and the economic mutation that accompanies it. Take this year's number-one company, QVC Network, a retailer that couldn't have existed a decade ago, before cable-television and satellite technology were linked to produce some lucrative possibilities. QVC, which stands for quality, value, and convenience, is a televised shopping network that now appears in 45 million cable- and satellite-connected homes—24 hours a day, 364 days a year.

"This has become an accepted way of shopping," QVC's cofounder Mike Boyd says. "Our show is easy to watch, the presentation is soft sell, and the demonstration of products is informative." When QVC was founded in 1986, it had 20 competitors. Today the field has been winnowed to 2 major players—QVC and Home Shopping Network—and they recently leaked word of a possible "business combination."

QVC, just five years old and well on its way to annual sales of $1 billion, now adds 100,000 new users each month—and 60% of those people will turn into repeat buyers. Technological change in the form of digital compression, which will give cable companies the ability to broadcast up to 10 channels in the same space through which they currently send one, will further boost growth. That could turn QVC into an electronic mall, with viewers able to flip from shoes to cosmetics to lingerie. The company is currently testing a fashion and accessories channel in a small selected market.

The Inc. *100 by Industry*

CONSUMER	16
COMPUTER RELATED	32
ENVIRONMENT	4
ENERGY RELATED	5
HEALTH RELATED	21
TELECOMMUNICATIONS	11
MISCELLANEOUS	11

QVC is an instructive example of how change yields opportunity, but among *Inc.* 100 companies, it is hardly an exception. Witness the continuing entrepreneurial response to Ma Bell's breakup. Toiling creatively in the telecommunications arena are 11 of this year's companies, including Peoples Telephone (#83). Peoples, a private-sector phone company, takes a targeted approach to the market, bringing telephoning to where the masses mass. Peoples has thus far installed 19,000 pay phones in high-demand locations, such as gas stations, convenience stores, hospitals, and prisons.

PictureTel (#37) and Phoenix Network (#9) are other by-products of information's brave new world. Phoenix Network buys long-distance phone services and then resells them to an array of small customers who otherwise could not take advantage of volume discounts. PictureTel brings us face-to-face with the present day's McLuhanesque possibilities. It manufactures state-of-the-art videoconferencing systems—along with equally elegant profits for those visionary enough to have bought its

The Inc. *100 by Sector*

DISTRIBUTION	16
MANUFACTURING	43
MINING	2
RETAIL	4
SERVICE	35

The Inc. *100 CEOs*

FOUNDERS	65
AVERAGE EQUITY	11%
AVERAGE SALARY	$201,950

PATRICIA D. ANDERSON

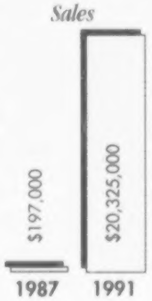
EASY LISTENING

Boosting sales: Innovo Group, Sugar Land, Tex.; #7

IN THE BEGINNING, INNOVO GROUP FOUNDER Patricia D. Anderson had shallow pockets, no proprietary advantage, and almost no notion of what her company would do. But Innovo's humble origins don't appear to have slowed it.

Once a national sales director for a housewares and gift importer, Anderson asked college students in the Houston area, where Innovo Group is based, to create designs for a pot holder and apron that she would silkscreen, sew, and package. She got distribution through gift-shop channels, but she couldn't penetrate the mass merchandisers she needed until a buyer suggested she repackage one of her children's aprons as a craft smock and include a paint set. Anderson made the change and watched sales skyrocket.

Innovo Group now sells aprons, tote bags, and sports bags—all emblazoned with sports-team logos, cartoon characters, and other images licensed for reproduction. How does Anderson decide which trends, personalities, or styles will sell? For one, she keeps listening. Store buyers continue to provide good guidance. But like every smart trend spotter, she takes note of the colors, textures, and graphics people are wearing everywhere she goes. "And I purposely go to trendy restaurants to see what's in," she says. *—Betsey Winckler*



PETER D. BEHRENDT

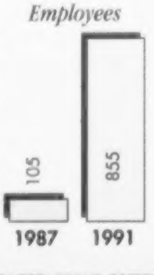
JOB MACHINE

Boosting employment: Exabyte, Boulder, Colo.; #12

IT'S NO LONGER NEWS THAT SMALL GROWING COMPANIES are the best job generators in the U.S. economy. Less well reported is the fact that fast-growth companies create many more jobs beyond their own walls than they do inside them. In seven years Exabyte, which develops, manufactures, and markets high-capacity computer-data-storage applications, created 855 in-house jobs, without acquisitions. We're not talking fast-food counter help; the positions range from engineers and marketers to production workers.

Impressive as that figure is, it represents a fraction of the job growth Exabyte has fostered worldwide, CEO Peter D. Behrendt says. A year ago Behrendt surveyed Exabyte's research and manufacturing partners, customers, and vendors. "If Exabyte did not exist," he queried, "what difference would that make in your employee numbers?" The answer: about 4,800 jobs.

Exabyte exhibits some of the standard symptoms of a healthy relationship between a company and its employees: Input is encouraged on the production line, in quarterly meetings, and at "pastries with Peter," informal monthly breakfasts the CEO hosts for 10 randomly selected workers. And thanks to stock options given to employees when they're hired and as performance incentives, approximately 20% of Exabyte stock was owned by employees when the company went public in 1989. *—Betsey Winckler*



PHOTOGRAPHS: RON KEITH (TOP); RAY NG (BOTTOM)

stock some time ago; at press time PictureTel stock had risen 127% in the past year. Which is not bad, but nowhere near the pace of the fastest-appreciating stock on this year's list, Noise Cancellation Technologies (#21), which climbed a not-so-quiet 352% in the past 12 months.

Health care, much in the news lately for better (high stock prices) or worse (high prices), is amply represented here, not surprisingly. The 21 health-care companies on the list include the like-named Summit Technology (#35) and Sunrise Technologies (#8)—both of which do the same thing: develop laser-based medical technologies that have revolutionized eye surgery. Several companies, meanwhile, are doing their part to keep high health-care costs from killing the body politic. Value Health (#46) manages specialized programs, such as drug treatment and psychiatry, for employee health-benefit plans; Ren Corp.-USA (#78) builds freestanding kidney-dialysis treatment centers; and T^2 Medical (#36) provides outpatient infusion therapy.

On the low-tech end of the list are equally intriguing niche openers, such as Rally's (#59) and Rentrak (#44). Rally's, a hamburger chain with 333 units in 22 states gives new meaning to the term *fast food.* Customers order at drive-through windows and are served within 45 seconds. A Rally's is typically half the size of the average fast-food restaurant, the prices about 25% lower.

Rentrak has done a fast forward on the videocassette revolution by exploiting a simple idea: video stores often cannot afford to stock enough new releases to meet initial demand, which dwindles within weeks or months. Rentrak leases the tapes to retailers, and both parties divvy up the rental income.

So what has all this entrepreneurial vigor done beyond provide the usual windfalls for the boss and a coterie of financiers? A lot. Annual revenues for *Inc.* 100 companies last year averaged more than $84 million, a 21-fold increase in five years. The number of employees at the typical company grew from 132 to 896, and sales per employee tripled from $31,000 to nearly $94,000.

As for *Inc.* 100 CEOs, they won't be standing in a soup line tomorrow, but they'll wait to buy the yacht. The average salary—$202,000—would make Steven J. Ross of Time Warner blush. Delayed gratification and future payout, in the form of a solid equity stake with bright prospects for appreciation, are the fashion now. The average *Inc.* 100 CEO holds 11% of his company's stock. *His* does indeed seem the operative word here; only three companies—Innovo Group (#7), Quarterdeck Office Systems (#45), and Software Spectrum (#98)—are headed by women.

The *Inc.* 100 are not merely the beneficiaries of change. In their own ways, they are its agents. Their tactics and cultures sometimes reflect trends and ideas that transcend the bottom line. Angeion (#27), a developer and manufacturer of therapeutic cardiovascular devices, teaches English to its Hmong and Vietnamese employees. Aurora Environmental (#90), a consulting and testing company, has established a for-profit environmental-training school for employees and customers. Software developer Platinum Technology (#11) donates up to $50,000 a year to save African wildlife. Automobile Protection (#88), a dozen of whose 50 employees are related, evidently believes the family who works together prospers together. Phoenix Network solicits new customers by offering to rebate 10% of their monthly bills to a charity of their choice. Mycogen (#97), a developer of biopesticides, arranges for its employees to tutor local science students and is developing a science-equipment donation program to schools.

If you've been looking to shake up your professional life but haven't seen evidence to convince you that radical transformations are possible, examine the career path of Frank Martin of The Longwood Group (#50). Before leading his geriatric-care company onto the list, he was a Broadway producer.

Or consider the case of brothers Roy and Larry McKnight, who six years ago sold their small tooling company to Secom General (#87) for $2 million in stock and planned to retire. In 18 months Secom lost $3 million on sales of $5 million, and the McKnights were decidedly poorer. Roy McKnight then stepped in, hired new management, and shed Secom's money-losing high-tech businesses. What was left? The old tooling company. Secom has since acquired four other basic manufacturing companies. This year sales should hit $40 million, and McKnight confidently projects $200 million in annual revenues by 1995. Some retirement. ❑

—Edward O. Welles

PROFIT MOTIVE

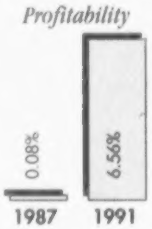
Boosting profitability: Qual-Med, Monte Vista, Colo.; #19

MALIK M. HASAN

A FIX FOR THE NATION'S RUINOUSLY HIGH HEALTH-care costs? Stop using so many diagnostic tests.

That's the solution offered by Qual-Med, which acquired four almost-insolvent health-maintenance organizations in Western states and turned them into profit centers. How? By curing the HMOs' staffs of "intellectual laziness and overindulgence," founder Malik M. Hasan says. Qual-Med's medical-management system triggers drastic reductions in the number of costly tests and diagnostic procedures ordered per patient, enabling the company to find margin where none existed, he says.

That may sound like medicine practiced by accountants, but Hasan argues otherwise. "When you substitute testing for personal care, you're loyal to your machines, not your patients." For too many physicians, tests are a crutch, he says, and are resorted to without regard for expense, discomfort, inconvenience, or even usefulness. Not only has fighting this attitude resulted in profits, Qual-Med also boasts a 90% patient-satisfaction rate—30% higher than at other local facilities, according to Hasan.

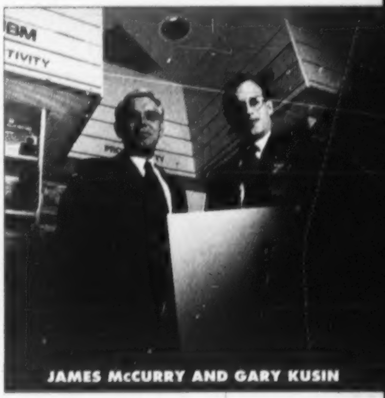


Hasan considers Qual-Med's success a living indictment of U.S. medicine's overreliance on technology. "By working hard at quality, the cost comes down naturally," he says.

—Vera Gibbons

FLOOR WALKERS

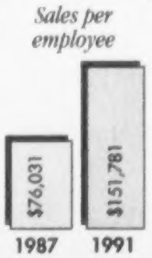
Boosting productivity: Babbage's, Dallas; #73



JAMES McCURRY AND GARY KUSIN

NINE YEARS AGO H. ROSS PEROT PANNED JAMES B. McCurry and Gary M. Kusin's business plan for a mall-based software chain. "Start with one store," he advised, "and run it yourselves." So the two founders quit their jobs to build, stock, and run the sales floor of the first Babbage's.

Kusin and McCurry have since promoted themselves to executive offices, but they haven't lost sight of where the organization gets its leverage. "Where the customer meets the company is the single most important point in retail," McCurry says. To make that meeting place a success, Kusin and McCurry focused on hiring approachable, friendly salespeople instead of potentially intimidating computer jocks. Salespeople receive continual training, including company-generated videos. To keep technologically current, the staff can practice on sample software at home, and store managers may buy home computers with no-interest company-sponsored loans.



Perhaps because two vice-presidents and all 32 regional and district managers have climbed from the retail floor, every level of the organization remains closely tied to the field. Every day each store sends headquarters a daily report that includes not only numbers, but also comments, questions, and product requests from customers and staff.

Perot's advice has definitely paid off. "Our sales staff is the most important factor in our success," Kusin says.

—Phaedra Hise

PHOTOGRAPHS: RICHARD MORGENSTEIN (TOP); REID HORN (BOTTOM)

INC. 100

1992 RANK	COMPANY	BUSINESS DESCRIPTION	COMPOUND ANNUAL SALES GROWTH 1987–91	REVENUES ($000) 1991	REVENUES ($000) 1987
1.	**QVC Network** (West Chester, PA)	Broadcasts televised shopping programs	334%	$776,029	$2,189
2.	**NYCOM Information Services** (Stamford, CT)	Provides telecommunications svcs.	300	47,000 [a]	183
3.	**Canyon Resources** (Golden, CO)	Develops gold properties	264	21,700 [a]	124
4.	**Marsam Pharmaceuticals** (Cherry Hill, NJ)	Develops, mfrs., & mkts. pharmaceuticals	255	17,000 [a]	107
5.	**Zeos International** (St. Paul, MN)	Develops & mkts. computer systs.	240	230,913	1,733
6.	**Cisco Systems** (Menlo Park, CA)	Develops & mfrs. networking systs.	233	183,184	1,485
7.	**Innovo Group** (Sugar Land, TX)	Mfrs. & mkts. bags & aprons	219	20,325	197
8.	**Sunrise Technologies** (Fremont, CA)	Designs, mfrs., & mkts. medical laser systs.	218	20,337	200
9.	**Phoenix Network** (San Francisco, CA)	Provides telecommunications svcs.	216	13,498	136
10.	**Diagnostek** (Albuquerque, NM)	Provides pharmacy-mgmt. svcs.	203	225,143	2,654
11.	**Platinum Technology** (Lombard, IL)	Develops & mkts. systems software	203	28,768	340
12.	**Exabyte** (Boulder, CO)	Designs, mfrs., & mkts. magnetic-tape systs. [a]	201	234,052	2,865
13.	**Network General** (Menlo Park, CA)	Designs, mfrs., & mkts. local-area-network software	199	44,613	556
14.	**Vitesse Semiconductor** (Camarillo, CA)	Designs, mfrs., & mkts. integrated circuits	193	23,723	324
15.	**Amtech** (Dallas, TX)	Designs, mfrs., & mkts. vehicle-identification systs.	192	18,748	258
16.	**Regal Communications** (Fort Washington, PA)	Develops & mkts. telephone-entertainment programs	164	17,707	363
17.	**DeVry** (Evanston, IL)	Owns & operates business schools	154	163,141	3,395
18.	**SynOptics Communications** (Santa Clara, CA)	Distr. local-area-network integration & mgmt. systs.	153	248,255	6,063
19.	**Qual-Med** (Monte Vista, CO)	Provides HMO svcs.	151	290,773 [a]	7,315
20.	**MHI Group** (Tallahassee, FL)	Owns & operates funeral homes	147	13,039	348
21.	**Noise Cancellation Technologies** (Linthicum, MD)	Develops noise-abatement technologies	146	6,000 [a]	163
22.	**Micronics Computers** (Fremont, CA)	Distr. system boards for personal computers	141	133,899	3,989
23.	**Cirrus Logic** (Fremont, CA)	Mfrs. & distr. integrated circuits & software	138	159.616	5,014
24.	**VISX** (Sunnyvale, CA)	Designs & mfrs. corrective-vision technology	135	13,171	435
25.	**First Team Sports** (Mounds View, MN)	Mfrs. & distr. center-aligned roller skates	133	13,702	461
26.	**Warrantech** (Stamford, CT)	Mkts. & administers service & warranty contracts	133	56,463	1,914
27.	**Angeion** (Minneapolis, MN)	Develops & mfrs. cardiovascular prods.	133	6,472	220
28.	**Electronic Technology Group** (Jamestown, NY)	Mfrs. electronic circuit boards	133	15,856	539
29.	**Creative Technologies** (Brooklyn, NY)	Develops & mkts. new consumer technologies	132	6,103	212
30.	**Cable Car Beverage** (Denver, CO)	Mkts. specialty soft drinks	128	12,138	453
31.	**Applebee's International** (Kansas City, MO)	Owns, operates, & franchises restaurants	127	45,130	1,701
32.	**Sybase** (Emeryville, CA)	Develops & mkts. database-mgmt. software	127	159,448	6,047
33.	**In Focus Systems** (Tualatin, OR)	Develops & mfrs. liquid-crystal-display prods.	125	49,500	1,930
34.	**Novellus Systems** (San Jose, CA)	Mfrs., mkts., & svcs. integrated-circuit systs.	123	80,014	3,262
35.	**Summit Technology** (Waltham, MA)	Mfrs. eye-surgery lasers	122	22,018	912
36.	**T^2 Medical** (Alpharetta, GA)	Provides outpatient infusion therapy	121	147,572	6,132
37.	**PictureTel** (Peabody, MA)	Develops, mfrs., & mkts. visual-communications systs.	120	78,024	3,326
38.	**Ambar** (Lafayette, LA)	Provides & mkts. environmental svcs.	118	21,425	941
39.	**Xilinx** (San Jose, CA)	Distr. development-systems software	117	97,638	4,375
40.	**USMX** (Lakewood, CO)	Develops gold properties	117	16,461	738
41.	**International Recovery** (Miami Springs, FL)	Provides aviation-fuel svcs.	116	234,280	10,841
42.	**CE Software Holdings** (West Des Moines, IA)	Designs, mkts., & distr. business software	115	8,640	402
43.	**Bloc Development** (Coral Gables, FL)	Designs, mkts., & distr. business software	115	43,000 [a]	2,022
44.	**Rentrak** (Portland, OR)	Distr. prerecorded videocassettes	114	33,942	1,608
45.	**Quarterdeck Office Systems** (Santa Monica, CA)	Develops & mkts. software	114	47,995	2,297
46.	**Value Health** (Avon, CT)	Provides health plans	113	154,787	7,483
47.	**Mitek Surgical Products** (Norwood, MA)	Distr. tendon-reattachment implants	112	8,810 [a]	437
48.	**Cabletron Systems** (Rochester, NH)	Develops, mfrs., & mkts. computer-networking prods.	109	180,538	9,450
49.	**Diagnostic Sciences** (Huntington, NY)	Provides diagnostic-imaging svcs.	108	9,427 [a]	501
50.	**Longwood Group** (Springfield, PA)	Develops, mkts., & administers geriatric facilities	106	2,165 [a]	120

* according to stock performance for March 1991 to March 1992. a: company estimate. b: nine-month figure. c: 1990 figure. NA: not available

NET INCOME ($000)		NO. EMPLOYEES		YEAR	STOCK				CEO		
1991	1987	1991	1987	PUBLIC	SYMBOL	EXCHANGE	% CHANGE[a]	RANK[a]	SALARY	FOUNDER	EQUITY %
($16,985)	($8,466)	5,000	1,200	1986	QVCN	NASDAQ	126%	20	$375,000	Y	5.0%
(2,483)[b]	(1,613)	329	17	1986	NYCM	NASDAQ	−90	99	163,000[c]	N	3.0[c]
498[b]	940	115	22	1986	CYNR	NASDAQ	163	13	83,243[c]	Y	2.7[c]
506[b]	(1,431)	80	19	1987	MSAM	NASDAQ	−7	77	200,000[c]	Y	20.3[c]
10,286	(135)	813	67	1987	ZEOS	NASDAQ	31	61	140,000	Y	20.0
43,189	83	505	9	1990	CSCO	NASDAQ	187	8	274,905	N	3.3
1,357	2	800	3	1990	INNO	NASDAQ	137	15	84,000	Y	34.0
3,986	6	73	5	1989	SNRS	NASDAQ	47	54	162,000	Y	19.1
(964)	(178)	43	5	1983	PHXN	NASDAQ	68	40	147,096	Y	51.8
6,885	487	2,800	25	1983	DXK	NYSE	61	45	400,000	Y	6.0
5,089	(747)	151	15	1991	PLAT	NASDAQ	157	14	624,683	Y	29.8
32,197	(3,002)	855	105	1989	EXBT	NASDAQ	96	35	300,000	N	2.5
7,261	0	148	5	1989	NETG	NASDAQ	102	29	170,000	Y	13.2
(2,916)	(5,157)	252	75	1991	VTSS	NASDAQ	122	23	136,061	Y	1.2
4,985	(3,129)	200	36	1989	AMTC	NASDAQ	228	5	180,000[c]	N	1.0[c]
2,640	(819)	42	12	1986	RCOM	NASDAQ	37	59	144,000	Y	45.9
(3,645)	384	2,000	27	1991	DVRY	NASDAQ	98	32	294,481	Y	15.3
26,807	(314)	1,000	250	1988	SNPX	NASDAQ	−51	94	370,455	Y	4.2
13,949[b]	6	660	35	1991	QLMD	NASDAQ	167	12	450,000	Y	32.0
(623)	(897)	150	25	1968	MH	NYSE	216	6	195,000	N	4.0
(656)[b]	(2,113)	80	12	1987	NCTI	NASDAQ	352	1	125,000	N	8.0
9,372	176	260	50	1991	MCRN	NASDAQ	21	67	285,986	Y	8.2
20,477	(6,367)	558	106	1989	CRUS	NASDAQ	−11	79	370,406	Y	1.8
(1,817)	(1,448)	70	3	1988	VSX	AMEX	133	16	135,000	Y	4.0
1,472	(90)	32	4	1987	FTSP	NASDAQ	26	65	95,000	Y	8.0
(138)	(345)	40	15	1984	WTEC	NASDAQ	84	37	134,[illegible]73	Y	16.5
(1,767)	(640)	124	17	1988	ANGN	NASDAQ	−52	95	105,600	Y	3.0
(1,441)	20	190	52	1990	ETEK	NASDAQ	−88	98	75,000	Y	6.3
73[b]	(1,065)	14	14	1986	CRTV	NASDAQ	275	2	100,000	N	0.0
(486)	(790)	56	7	1972	DRNK	NASDAQ	46	56	93,500	N	12.4
3,081	(121)	1,704	NA	1989	APPB	NASDAQ	75	38	188,390[c]	Y	17.0[c]
9,159	(7,423)	1,001	146	1991	SYBS	NASDAQ	96	34	179,000	Y	4.6
4,700	(508)	175	12	1990	INFS	NASDAQ	−37	87	172,500	Y	16.0
16,777	(3,150)	265	46	1988	NVLS	NASDAQ	15	68	302,596	N	1.5
980	(1,597)	108	30	1987	BEAM	NASDAQ	116	25	145,000	Y	11.3
34,570	1,233	607	110	1988	TSQM	NASDAQ	115	26	275,000	Y	1.7
5,951	(5,023)	430	50	1984	PCTL	NASDAQ	127	19	153,713[c]	N	1.4
1,331	50	110	6	1991	AMBR	NASDAQ	−38	88	175,000	Y	53.4
15,932	(5,080)	455	80	1990	XLNX	NASDAQ	52	50	190,000	Y	3.2
1,927	(1,310)	82	27	1980	USMX	NASDAQ	57	47	135,000	N	26.0
4,806	286	280	40	1986	INT	NYSE	49	52	534,985	Y	5.5
1,437	17	80	12	1990	CESH	NASDAQ	34	60	100,000	Y	17.1
(1,886)[b]	451	240	30	1988	BDEV	NASDAQ	−26	84	251,250	Y	32.0
1,298	125	153	72	1986	RENT	NASDAQ	−6	76	200,000	Y	3.5
12,018	346	246	128	1991	QDEK	NASDAQ	110	27	136,538	Y	8.6
7,522	(774)	550	1	1991	VHII	NASDAQ	169	11	350,000	Y	11.0
1,251[b]	(350)	31	6	1991	MYTK	NASDAQ	122	24	200,000	N	0.0
35,917	734	2,000	160	1989	CS	NYSE	63	43	52,000	Y	22.0
802[b]	(751)	700	4	1987	DSIC	NASDAQ	52	49	0	N	15.0
1,200[b]	(258)	11	3	1987	LONG	NASDAQ	39	57	120,000[c]	Y	5.0[c]

INC. 100

1992 RANK	COMPANY	BUSINESS DESCRIPTION	COMPOUND ANNUAL SALES GROWTH 1987–91	REVENUES ($000) 1991	REVENUES ($000) 1987
51.	**Environmental Services of America** (Newark, NJ)	Provides environmental & hazardous-waste mgmt. svcs.	106 %	$17,099 [a]	$957
52.	**Integrated Health Services** (Hunt Valley, MD)	Provides geriatric svcs.	106	143,652	8,040
53.	**AirSensors** (Cerritos, CA)	Develops automotive electronic-fuel systs.	105	30,530	1,734
54.	**Jillian's Entertainment** (Miami, FL)	Owns & operates billiard clubs	104	2,401	138
55.	**Random Access** (Denver, CO)	Mkts. computer hardware, software, training, & svcs.	102	58,601	3,515
56.	**Artisoft** (Tucson, AZ)	Designs, mfrs., & mkts. local-area-network software	102	41,001	2,481
57.	**Oxford Health Plans** (Darien, CT)	Provides health plans	101	92,478	5,630
58.	**Radius** (San Jose, CA)	Designs, mfrs., & mkts. high-resolution computer screens	101	118,624	7,278
59.	**Rally's** (Louisville, KY)	Owns, operates, & franchises restaurants	101	94,131	5,784
60.	**Matrix Service** (Tulsa, OK)	Provides petroleum-refining svcs.	100	86,486	5,364
61.	**C. A. Short International** (Amlin, OH)	Mkts. incentive programs	99	24,320	1,566
62.	**Homestyle Buffet** (Palm Harbor, FL)	Owns & operates restaurants	98	49,447	3,188
63.	**Future Now** (Cincinnati, OH)	Distr. & installs microcomputer software & systs.	97	138,700	9,213
64.	**Medical Imaging Centers of America** (San Diego, CA)	Provides medical svcs. to hospitals & physicians	97	87,700 [a]	5,852
65.	**Strings** (Brooklyn, NY)	Operates retail gift stores	96	4,021	271
66.	**Royce Laboratories** (Miami, FL)	Develops, mfrs., & mkts. pharmaceuticals	96	2,000 [a]	135
67.	**LDDS Communications** (Jackson, MS)	Provides telecommunications svcs.	96	263,408	18,030
68.	**Bio-Reference Laboratories** (Elmwood Park, NJ)	Provides diagnostic chemical-testing svcs.	95	14,627	1,002
69.	**Read-Rite** (Milpitas, CA)	Distr. thin-film disk-drive recording heads	94	177,022	12,490
70.	**Qualcomm** (San Diego, CA)	Develops, mfrs., & mkts. digital-telecommunications systs.	93	90,253	6,553
71.	**International Mobile Machines** (King of Prussia, PA)	Develops & mkts. digital-telecommunications systs.	93	33,000 [a]	2,397
72.	**Image Entertainment** (Chatsworth, CA)	Distr. laser-disk programs	92	48,189	3,530
73.	**Babbage's** (Dallas, TX)	Operates retail software stores	91	132,808	9,884
74.	**Heritage Media** (Dallas, TX)	Provides in-store advertising & promotional svcs.	90	222,360	17,216
75.	**Arch Petroleum** (Fort Worth, TX)	Extracts petroleum & natural gas	89	16,021	1,247
76.	**Trimble Navigation** (Sunnyvale, CA)	Designs, mfrs., & mkts. navigational instruments	88	150,970	12,007
77.	**Zila** (Phoenix, AZ)	Mkts. & distr. topical medications	88	3,984	318
78.	**Ren Corp.-USA** (Nashville, TN)	Provides kidney-dialysis treatment	87	53,427	4,328
79.	**AutoInfo** (Maywood, NJ)	Provides computer networks for auto-salvage industry	87	9,624	783
80.	**MIPS Computer Systems** (Sunnyvale, CA)	Designs, mfrs., & mkts. computer systs. & workstations	87	168,518	13,902
81.	**Digital Systems International** (Redmond, WA)	Mfrs. & mkts. outbound-telephone-call systs.	85	51,761	4,375
82.	**Energy Ventures** (Houston, TX)	Provides oil-field svcs. & equip.	85	177,325	15,254
83.	**Peoples Telephone** (Miami, FL)	Operates & svcs. pay-telephone systs.	85	55,000 [a]	4,745
84.	**American Power Conversion** (West Kingston, RI)	Designs, mfrs., & mkts. computer software	84	93,624	8,133
85.	**Vestro Foods** (Newport Beach, CA)	Mfrs. specialty foods	84	37,291	3,240
86.	**KnowledgeWare** (Atlanta, GA)	Designs, develops, & mkts. computer-aided-engineering prods.	83	124,277	10,987
87.	**Secom General** (Novi, MI)	Mfrs. metal & plastic parts & other prods.	83	16,963	1,500
88.	**Automobile Protection** (Atlanta, GA)	Mkts. & administers vehicle service contracts	83	23,205	2,060
89.	**Watsco** (Coconut Grove, FL)	Mfrs. & distr. heating & air-conditioning equip.	83	169,554	15,068
90.	**Aurora Environmental** (New York, NY)	Provides environmental consulting & testing	83	10,444	931
91.	**Horizon Healthcare** (Albuquerque, NM)	Operates long-term geriatric-care centers	83	110,672	9,866
92.	**Broadcast International** (Midvale, UT)	Provides satellite-communications prods. & svcs.	83	32,915 [a]	2,935
93.	**IPL Systems** (Waltham, MA)	Designs, mfrs., & mkts. data-storage systs.	83	60,469	5,404
94.	**Intellicall** (Carrollton,TX)	Develops & mkts. pay phones	82	221,555	20,195
95.	**Digi International** (Eden Prairie, MN)	Mfrs. data-communications hardware & software	82	40,843	3,723
96.	**SciMed Life Systems** (Maple Grove, MN)	Develops, mfrs., & mkts. disposable medical devices	81	111,779	10,377
97.	**Mycogen** (San Diego, CA)	Develops, mfrs., & mkts. biological pesticides	80	24,000 [a]	2,271
98.	**Software Spectrum** (Garland, TX)	Distr. microcomputer business software	80	118,507	11,391
99.	**IMRS** (Stamford, CT)	Develops & mkts. network-based business software	79	34,324	3,308
100.	**Sepracor** (Marlborough, MA)	Develops, mfrs., & mkts. compound-purification processes	78	12,240 [a]	1,223

* according to stock performance for March 1991 to March 1992 a: company estimate b: nine-month figure c: 1990 figure NA: not available

NET INCOME ($000)		NO. EMPLOYEES		YEAR PUBLIC	STOCK				CEO		
1991	1987	1991	1987		SYMBOL	EXCHANGE	% CHANGE*	RANK*	SALARY	FOUNDER	EQUITY %
$479[b]	($450)	150	15	1987	ENSA	NASDAQ	–7 %	78	$115,000	N	9.0 %
5,925	(1,493)	6,000	700	1991	INSI	NASDAQ	63	44	200,000	Y	12.2
(1,649)	(2,919)	201	43	1986	ARSN	NASDAQ	–29	86	128,583	N	0.0
(2,716)	113	1,000	5	1985	QBAL	NASDAQ	100	30	50,000	N	20.2
1,086	127	214	11	1987	RNDM	NASDAQ	100	31	156,119	Y	31.2
6,523	125	248	12	1991	ASFT	NASDAQ	97	33	262,500	Y	28.0
3,311[b]	(2,662)	228	70	1991	OXHP	NASDAQ	–44	91	226,064	Y	9.3
3,691	133	340	20	1990	RDUS	NASDAQ	39	58	196,185	N	2.8
6,071	(531)	12,112	87	1989	RLLY	NASDAQ	128	18	0	N	0.5
5,569	110	112	50	1990	MTRX	NASDAQ	24	66	115,200	Y	4.2
601	426	100	5	1983	CASH	NASDAQ	–19	83	100,000	Y	23.5
(856)	125	2,000	250	1988	HBUF	NASDAQ	–40	90	90,000	N	1.8
3,005	(89)	550	53	1991	FNOW	NASDAQ	67	41	115,481	Y	2.5
6,152[b]	(2,350)	NA	NA	1985	MIKA	NASDAQ	–68	96	266,235	Y	2.5
728	(37)	50	20	1989	STGS	NASDAQ	–39	89	125,000	Y	26.9
116[b]	(1,503)	40	15	1986	RLAB	NASDAQ	–12	80	100,000	N	4.6
17,714	1,566	900	60	1989	LDDS	NASDAQ	71	39	489,269[c]	Y	21.2[c]
(2,747)	(1,075)	241	99	1986	BRLI	NASDAQ	–92	100	181,000[c]	Y	19.0[c]
23,076	(22,548)	5,000	200	1991	RDRT	NASDAQ	109	28	139,315	N	0.9
(8,365)	208	619	94	1991	QCOM	NASDAQ	27	64	157,116	Y	8.9
686[b]	(10,780)	108	NA	1981	IMMC	NASDAQ	49	53	250,000	N	0.0
(609)	(196)	93	50	1980	DISK	NASDAQ	56	48	204,000	Y	8.0
4,115	8	875	130	1988	BBGS	NASDAQ	173	10	250,000	Y	8.7
(14,958)	(6,051)	14,500	500	1988	HTG	AMEX	0	72	242,000	Y	1.0
6,991	303	27	19	1983	ARCH	NASDAQ	27	63	122,200[c]	N	4.5[c]
6,965	514	900	100	1990	TRMB	NASDAQ	9	70	262,000	Y	11.5
(3,684)	(441)	12	10	1980	ZILA	NASDAQ	129	17	141,000	N	8.0
1,633[b]	642	700	300	1989	RENL	NASDAQ	186	9	375,000	Y	10.4
2,403	(669)	50	25	1986	AUTO	NASDAQ	7	71	120,000	Y	4.5
(34,671)	(10,500)	700	160	1989	MIPS	NASDAQ	47	55	234,117	N	1.7
(1,190)	1,227	400	40	1990	DGTL	NASDAQ	–17	82	163,000	Y	14.0
4,463[b]	2,692	2,000	4	1972	ENGY	NASDAQ	–29	85	200,000	N	0.5
1,267[b]	(1,035)	240	50	1987	PTEL	NASDAQ	123	22	289,794	Y	10.0
15,567	1,091	425	62	1988	APCC	NASDAQ	243	3	255,636[c]	N	12.0[c]
558[b]	104	210	184	1987	VEST	NASDAQ	50	51	180,000	Y	12.7
15,328	(2,471)	766	80	1989	KNOW	NASDAQ	–49	93	180,000	Y	9.6
1,103	(1,131)	415	120	1987	SECM	NASDAQ	123	21	141,500	N	9.2
298	(12)	54	9	1988	APCO	NASDAQ	0	73	138,600	Y	17.7
1,817[b]	1,626	650	308	1962	WSOA	AMEX	–13	81	325,000	N	20.0
113	63	136	56	1983	AURE	NASDAQ	–74	97	97,116	N	21.3
1,830	(1,516)	5,400	4,800	1987	HHC	NYSE	230	4	350,000	Y	11.7
1,528[b]	(435)	450	35	1990	BRIN	NASDAQ	–2	74	145,500[c]	Y	3.8[c]
9,363	1,759	130	34	1981	IPLSA	NASDAQ	11	69	140,091	N	2.5
2,398	1,304	410	150	1987	ICL	NYSE	–47	92	250,000	N	4.0
7,982	603	164	26	1989	DGII	NASDAQ	57	46	144,680	Y	16.3
28,755	214	1,200	200	1979	SMLS	NASDAQ	64	42	187,000	N	1.3
(1,389)[b]	(4,935)	280	100	1987	MYCO	NASDAQ	–4	75	226,489	N	0.0
1,928	238	201	35	1991	SSPE	NASDAQ	94	36	191,812	Y	19.1
2,651	65	262	35	1991	IMRS	NASDAQ	204	7	311,000	N	10.6
(12,854)[b]	(2,673)	172	52	1991	SEPR	NASDAQ	30	62	186,306	Y	2.4

"What Are You Doing About Sexual Harassment?"

Take the Inc. FaxPoll on page 23

It's more than just an employee's welfare. The legal and financial ramifications of a worker's sexual harassment claims could cripple a business' growth. How well could you spot harassment in your company?

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How the Inc. *100 Are Selected*

THE 1992 INC. 100 IS THE 13TH ranking of the 100 fastest-growing small public companies in the country.

The companies on the list are ranked by the compound annual growth rate in total revenues or net sales from fiscal year 1987 to fiscal year 1991.

To be eligible for the *Inc.* 100, companies must be publicly held, independent corporations; they may not be subsidiaries or divisions of other companies. They must have gone public no later than December 31, 1991, and there must be an active market in their stock.

In addition, each company must have reported 1987 revenues of no less than $100,000 and no greater than $25 million. Companies with 1991 reported revenues lower than 1990 revenues were disqualified.

Utilities, oil- and gas-exploration companies, and capital-enhancement companies—such as banks, insurance carriers, real estate developers, holding companies, and other investment offices—are excluded from consideration.

A team of researchers reviewed the financial reports of some 2,500 companies and interviewed the chief executive and chief financial officers of several hundred finalists.

Special-reports editor Elyse M. Friedman directed the *Inc.* 100 research team, which included *(front row, left to right)* Vera Gibbons, Phaedra Hise, Tyson R. Freeman, and Betsey Winckler; *(back row)* Judy Snow, Jason Ayers, Glenn David Chamuel, Krista J. Weidman, and Nathaniel M. Lindzen; and *(not pictured)* Laura L. Khelokian. ❑

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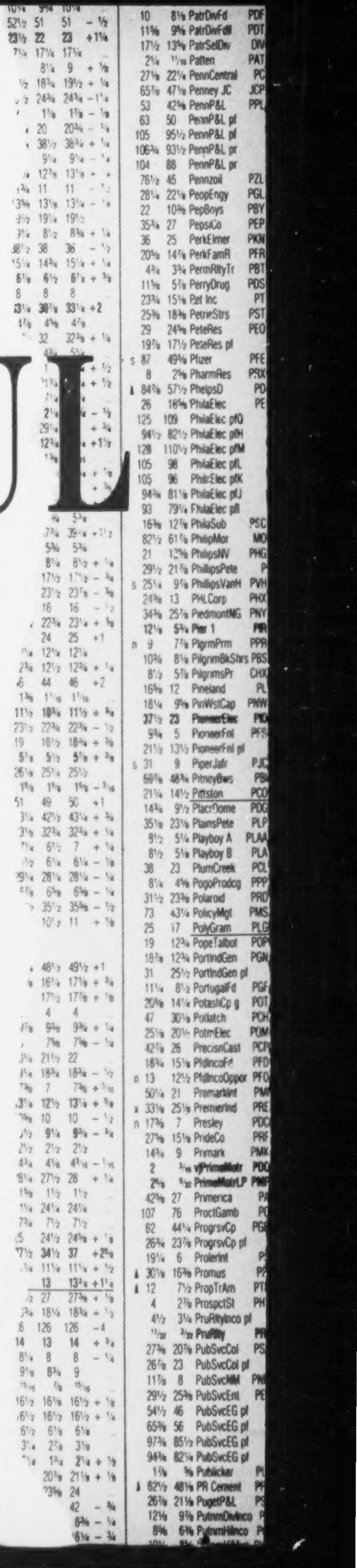
PHOTOGRAPH: RICHARD MITCHELL

SMALL IS, FINALLY, BEAUTIFUL



10	8⅛	PatrDivFd	PDF
11⅝	9⅝	PatrDivFdII	PDT
17½	13⅝	PatrSelDiv	DIV
2¼	11/16	Patten	PAT
27⅛	22¼	PennCentral	PC
65⅞	47⅛	Penney JC	JCP
53	42⅝	PennP&L	PPL
63	50	PennP&L pf	
105	95½	PennP&L pf	
106¾	93½	PennP&L pr	
104	88	PennP&L pr	
76½	45	Pennzoil	PZL
28¼	22⅛	PeopEngy	PGL
22	10⅝	PepBoys	PBY
35¾	27	PepsiCo	PEP
36	25	PerkElmer	PKN
20⅝	14⅞	PerkFamR	PFR
4¾	3¾	PermRltyTr	PBT
11⅝	5⅞	PerryDrug	PDS
23¾	15⅛	Pet Inc	PT
25⅝	18⅝	PetrieStrs	PST
29	24⅝	PeteRes	PEO
19⅞	17½	PeteRes pf	
s 87	49⅝	Pfizer	PFE
8	2⅝	PharmRes	PRX
▲ 84⅞	57½	PhelpsD	PD
26	18⅝	PhilaElec	PE
125	109	PhilaElec pfO	
94½	82½	PhilaElec pfH	
128	110½	PhilaElec pfM	
105	98	PhilaElec pfL	
105	96	PhilaElec pfK	
94¾	81⅛	PhilaElec pfJ	
93	79¼	PhilaElec pfI	
16⅝	12⅞	PhilaSub	PSC
82½	61⅞	PhilipMor	MO
21	12⅝	PhilipsNV	PHG
29½	21⅞	PhillipsPete	P
s 25¼	9⅞	PhillipsVanH	PVH
24⅝	13	PHLCorp	PHX
34⅝	25⅞	PiedmontNG	PNY
12⅛	5¾	Pier 1	PIR
n 9	7⅞	PlgrmPrm	PPR
10¾	8⅛	PilgrimBkShrs	PBS
8½	5⅞	PilgrimsPr	CHX
16⅝	12	Pineland	PL
18¼	9⅝	PinWstCap	PNW
37½	23	PioneerElec	PIO
9¾	5	PioneerFnl	PFS
21½	13½	PioneerFnl pf	
s 31	9	PiperJafr	PJC
69⅞	48¾	PitneyBws	PBI
21¼	14½	Pittston	PCO
14¾	9½	PlacrDome	PDG
35⅛	23⅛	PlainsPete	PLP
9½	5¼	Playboy A	PLAA
8½	5⅛	Playboy B	PLA
38	23	PlumCreek	PCL
8¼	4⅝	PogoProdcg	PPP
31½	23⅝	Polaroid	PRD
73	43¼	PolicyMgt	PMS
25	17	PolyGram	PLG
19	12¾	PopeTalbot	POP
18⅞	12¾	PortlndGen	PGN
31	25½	PortlndGen pf	
11¼	8½	PortugalFd	PGF
20⅝	14¼	PotashCp g	POT
47	30⅛	Potlatch	PCH
25⅛	20½	PotmElec	POM
42⅞	26	PrecisnCast	PCP
18¾	15⅛	PfdIncoFd	PFD
n 13	12½	PfdIncoOppor	PFO
50¼	21	PremarkInt	PMI
x 33⅛	25⅛	PremierInd	PRE
n 17⅜	7	Presley	PDC
27⅜	15⅛	PrideCo	PRF
14¾	9	Primark	PMK
2	3/16	vjPrimeMotr	PDG
2⅝	9/32	PrimeMotrLP	PMR
42⅝	27	Primerica	PA
107	76	ProctGamb	PG
62	44¼	ProgrsvCp	PGR
26¾	23⅞	ProgrsvCp pf	
19¼	6	ProlerInt	P
▲ 30⅛	16⅝	Promus	PR
▲ 12	7½	PropTrAm	PT
4	2⅞	ProspctSt	PH
4½	3¼	PruRltyInco pf	
11/32	3/32	PruRlty	PR
27¾	20⅞	PubSvcCol	PS
26⅞	23	PubSvcCol pf	
11⅞	8	PubSvcNM	PN
29½	25⅝	PubSvcEnt	PE
54½	46	PubSvcEG pf	
65¾	56	PubSvcEG pf	
97¾	85½	PubSvcEG pf	
94¾	82¼	PubSvcEG pf	
1⅜	⅝	Publicker	PU
▲ 62½	48⅛	PR Cement	PR
26⅞	21⅛	PugetP&L	PS
12⅛	9⅞	PutnmDivInco	P
8⅝	6⅝	PutnmHiInco	P

Underappreciated for years, small-company stocks finally exploded into investment favor in 1991. Will their newfound preeminence last?

WHILE THE COUNTRY'S LARGEST PUBLIC CORPORATIONS—General Motors, IBM, Westinghouse, Woolworth, and the like—are coming apart at the seams, its smallest have been putting on quite a show of strength. Small-capitalization corporations—those whose market value is a few hundred-million dollars or less—enjoyed their best stock-performance year ever.

In 1991 the blue-chip 30 Dow Jones Industrials gained 20%. But the Dow wasn't where the action was. The real movement was in the automated over-the-counter market, NASDAQ, where at the close of the year the average market value of a listing was $126 million, or approximately one two-hundredth of GM's. The NASDAQ Industrial Average soared a monumental 65%. Similarly, the Hambrecht & Quist Growth Index, composed of about 100 companies with market values of less than $200 million, surged an even longer 94%. Trading on NASDAQ soared to 41.3 billion shares (a record), and dollar volume to $694 billion (ditto).

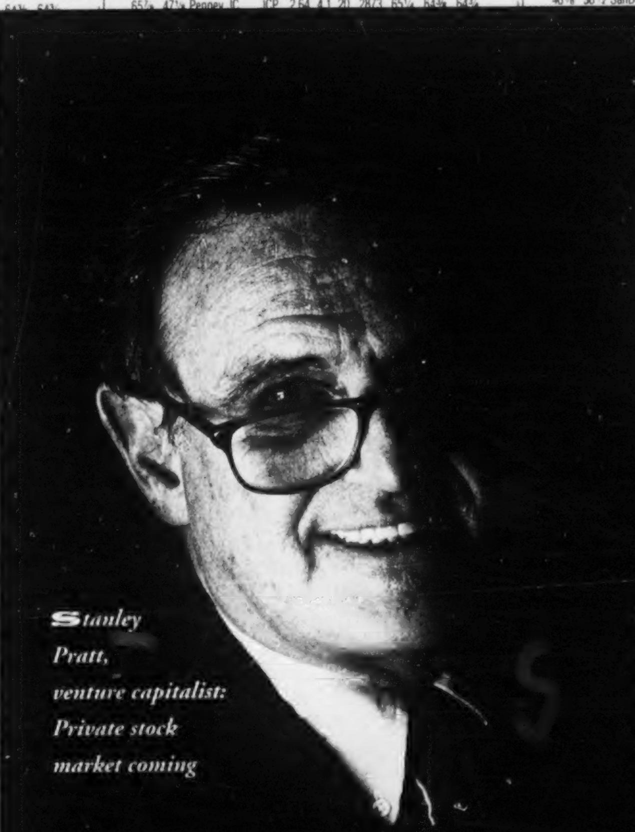
Small-cap stocks' climbing to record heights suggests a fundamental shift in investors' appreciation of our economy's future. Previously chary of the risk inherent in small-cap corporations—and of in-and-out liquidity problems due to their relatively low number of outstanding shares—many an institutional trading desk hired a small-cap money manager in 1991.

Why? Not because they suddenly discovered that growth-oriented management was more alert. Or that small companies could adapt to change faster, grab market share faster, create new products faster, bring them to market faster, start selling them faster, cut fat, trim overhead, go lean and mean—those abilities they already knew about.

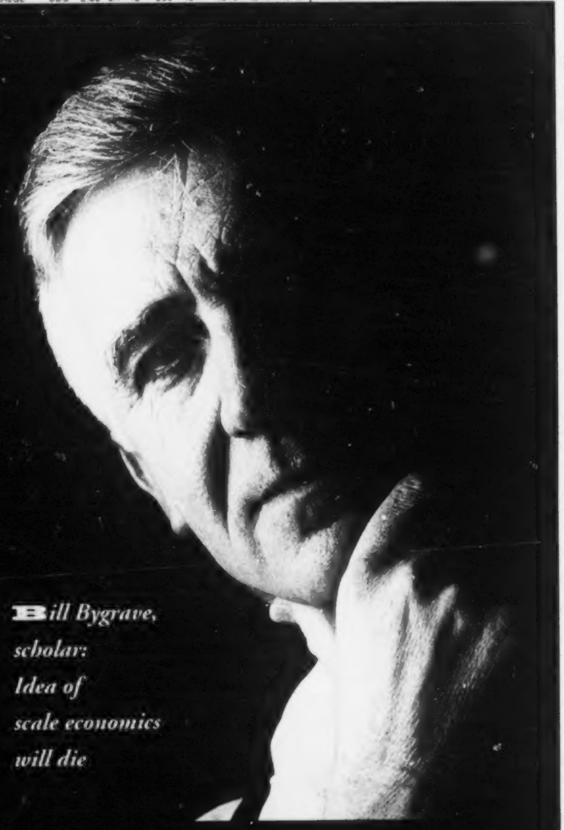
What investors realized was that, almost without exception, small-cap operations were bringing the bacon back home. Such companies thrive best where the rest of the globe hasn't yet dared venture. In 1991 small-cap hot spots included regional health care and delivery, biotechnology, software, computer mail order, specialty retail, and telecommunications—nary a VCR, TV, slab of steel, or side of beef to be found. Save for the silicon-chip business every now and again, no industrial sector populated by small public companies was so

By ROBERT A. MAMIS and EDWARD O. WELLES

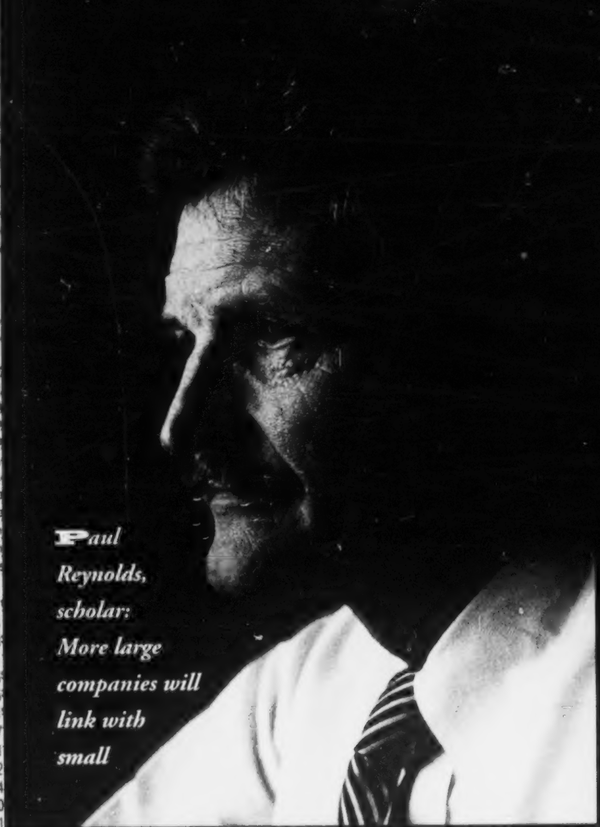
PHOTOGRAPHS: MILLICENT HARVEY (TOP TWO & BOTTOM RIGHT); JAMES SCHNEPF (BOTTOM LEFT)



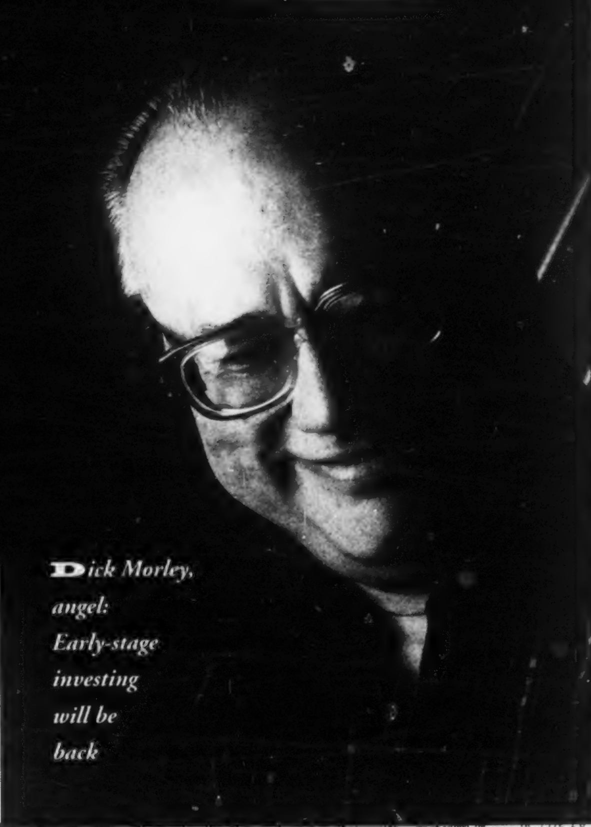
Stanley Pratt, venture capitalist: Private stock market coming



Bill Bygrave, scholar: Idea of scale economics will die



Paul Reynolds, scholar: More large companies will link with small



Dick Morley, angel: Early-stage investing will be back

desperately inept that the government had to drag a bevy of underinspired and overcompensated executives across the Pacific to bitch about it.

So let Japan have its MITIs and hierarchies. Big money's eager endorsement of small, non-dividend-paying companies in 1991 recognizes that pure capital gain is itself a rewarding concept. Forget the Nifty Fifty. Forget total return. Growth companies that plow income back into operations constitute a far more sensible investment than behemoths that have no better plan for capital than to raise CEO salaries.

Indeed, our entrepreneurial hockey-stick growth curves are the envy of the Japanese, who for half a dozen years have been trying to light the spark of innovative enterprise under their own worrisomely flattening economy.

They've had little success. So little, in fact, that plenty of U.S. small-company executives have been invited to teach them how to sow seeds properly. We may not be selling them any cars or fridges, but our growth-strategy know-how sure is in demand.

And no wonder. Businesspeople here run clever, raised-on-their-own-nickel companies such as—to name a few mentioned previously in *Inc.*—Symantec, up 233% in 1991; Borland International, up 159%; Ben & Jerry's Homemade, up 151%; Paychex, up 89%; and Dell Computer, up 39%.

By contrast, GM and IBM—which you have not read about in these pages—lost 16% and 21%, respectively. Not to mention 114,000 jobs. ❑

—Robert A. Mamis

Relative Market Performance

Industrial average	*3/1/91*	*2/28/92*	*% Change*
INC. 100	**11.8**	**18.7**	**+58%**
NASDAQ	**510**	**722**	**+42%**
AMEX	**348**	**416**	**+20%**
DJIA	**2,910**	**3,268**	**+12%**
S&P	**439**	**491**	**+12%**

THE FALLOUT: Better private-equity markets, more venture capital, increased eagerness among prospective big-company partners . . . How the stock market's enthusiasm will change your small company's life

AT THE HEART OF THE BULL MARKET FOR SMALL-capitalization stocks lie forces that will favor small companies in the years ahead and in turn will reshape the economy in their image.

"Every bit of evidence shows that two things are happening. The size of economic units that do productive things are getting smaller. And the number of those units is increasing," observes Paul Reynolds, a professor of entrepreneurship at Marquette University. These trends are part, he says, of "a fundamental shift in the economic structure, which will not reverse itself in my lifetime." Large companies such as IBM, to take a prime example, will never again look the way they did in the 1960s and '70s. "If IBM regains its profitability and market share, it's not because it will hire more people, but because it used fewer people and used them smarter," he predicts.

The increasing importance and numbers of small companies owe to a series of intertwined factors. Together, they exist as portents that are hard to ignore. Here is a look at some of these present causes and future consequences, presaged by the current bull market for small-cap companies.

VENTURE CAPITAL

With IPOs again offering lucrative exits, early-stage investment will revive

The hot market for small-cap stocks and, in particular, for initial public offerings signals the gradual return of venture capital to its original mission: the funding of early-stage start-up companies. That is a role U.S. venture capital increasingly abandoned after the collapse of the IPO market in 1984. As aversion to risk grew inversely to the decline in returns, venture capitalists became glorified investment bankers. Innovative young companies, starved for cash, died on the vine—or sought out more patient and venturesome Japanese investors.

Now that process is unwinding.

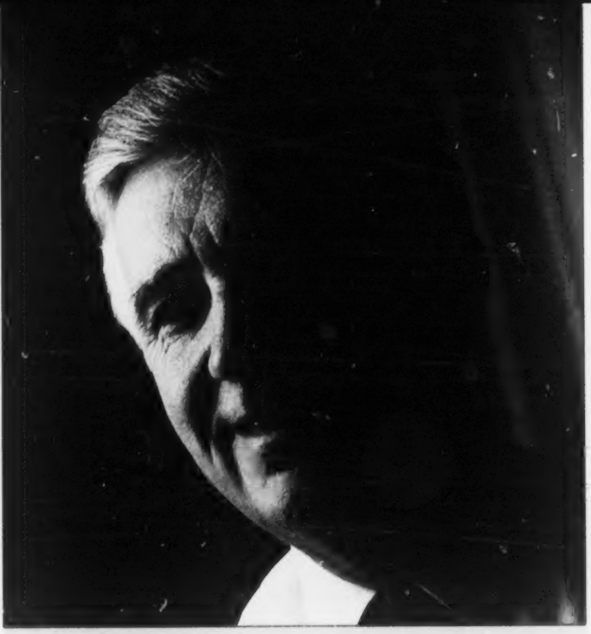
"The higher valuations for small-cap stocks will encourage venture capitalists to get back into earlier-stage investments. The window is open again," says Dan R. Garner, national director of entrepreneurial services at Ernst & Young, in Dallas. The robust market for IPOs in 1991 offers venture backers of small companies a viable exit and thus sufficient incentive to assume the attendant risk.

That gives hope not just to investors, but to entrepreneurs as well, notes Bill Bygrave, a professor of entrepreneurship at Babson College. "A healthy IPO market effectively lowers the cost of capital to start-up companies," he says. "Entrepreneurs get a higher price for their stock and have to give up less of the company to get it."

Bill Hambrecht, president of the San Francisco venture-capital firm Hambrecht & Quist, cites two more factors that will favor small, innovative companies: low interest rates and the failure of the debt-driven financial strategies of the '80s. "Fund managers can afford to sit out the market when they can get 8% or 9% on their money," Hambrecht notes. "But if they do that at 3% or 4%, they get fired. If you want above-average performance, you have to look for above-average growth in earnings. And that means you have to look for small companies."

Meanwhile, he adds, the '80s emphasis on borrowing placed a premium on tangible assets. "That was something banks were comfortable lending against." That bias favored large, mature companies at the expense of small ones whose key resources were locked up inside of people's heads. Now in a climate of asset deflation, small, knowledge-based companies have returned to favor, and that, he says, "has brought us back to a level playing field."

The return to a more classical form of venture capital will, meanwhile, stimulate related forms of alternative investment that languished in the late '80s, as lending grew more institutionalized. Prime among those are business angels—well-heeled



Bygrave: 'A healthy IPO market lowers the cost of start-up capital. Founders will get more for their stock and give up less of the company.'

individuals who privately place their money in small companies. With funds believed to outstrip the formal U.S. venture-capital pool of $36 billion by roughly 10 times, angels tend a huge, murky pool of cash. Until lately, though, some of that money has been frozen out of the investment process. In the current climate, in which exit opportunities are improved by the newfound strength of small-cap stocks and IPOs, angels will come back. Take the case of Dick Morley, an angel based in Amherst, N.H.

In the past, as Morley's investments matured and required additional funding, he brought in venture capitalists to make early-round investments and boost start-ups to their next level of growth. By the late '80s, though, those venture-capital investors had all but disappeared. "We had no one to hand our investments off to," he says. "This process is a food chain. And suddenly there was a missing link."

Venture capitalists, ready to do early-stage deals again, will reappear and reforge that missing link, Morley predicts. The average annual return on the top quartile of U.S. venture capital over the past two decades was 29.3%, according to Venture Economics Investor Services. That, Morley notes, offers ample investment incentive. "The recession will someday end, companies will again be healthier, and investors will look for places to get a higher return on their money," he says. "Venture capital has been proven to be one of the best vehicles to do that." The process that Morley describes is the deinstitutionalization of investing, whereby angels and other nonconventional investors who create companies will be on a much more equal footing with the New York City pension-fund managers. "In the next five years venture capital—*not* investment banking—will be resurrected," he predicts.

THE PRIVATE EQUITY MARKET

Money will find less conventional—and eventually more liquid—forms of investment

The rise in small-cap stocks and the resurgence of venture capital offer signs of the renewed flexibility in the financial markets to which Dick Morley alludes. Money will again search out less conventional—and seemingly less liquid—forms of investment. One universe money will move into is that of small, private, low-tech companies laboring quietly in the backwaters of the economy, heretofore ignored by mainstream investors. Those companies are not just overlooked; they're undervalued, says Stanley E. Pratt, managing partner at Abbott Capital Management, in Needham, Mass.

"I think we're about to tap into the enormous potential of private companies," Pratt says. He labels the process "controlled investment" as opposed to the sort of less controllable investment that often results when a small company meets the shifting moods of the public stock markets. Pratt sees a parallel stock market arising in the private sector, offering the best of both worlds: planned liquidity for investors and, for management, a buffer from the short-term pressures of the public market's caprice. Management in those small companies—newly infused with outside capital—will have the time, money, and peace of mind to devise long-range plans and build equity that won't get clobbered with the first quarter that turns down, he says.

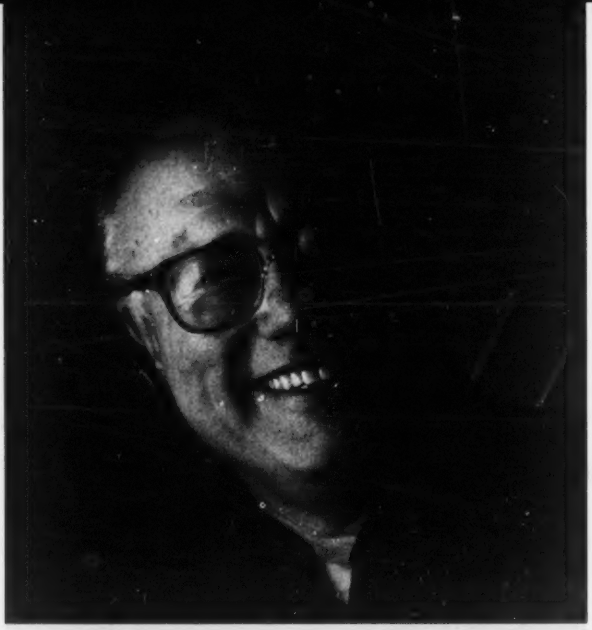
Yet an exit will exist, keeping investors and managers motivated to keep return on investment high. In fact, Pratt argues, the exit options will be varied enough to provide increased financial flexibility. "After a few years you can bring in new investors and take out the old," he says. Alternatively, investors could take the company public for a while and cash out some of their gains before going private again to recapitalize and plan for the next phase of growth.

The money to do such private-equity deals is definitely there, Pratt says. The pool of private-equity partnerships in the United States currently totals about $71.5 billion. The sum seems huge, but it could one day be greater. Pension-fund investments in the largest 3,000 U.S. public companies amount to $2.5 trillion. As money migrates to the highest returns, Pratt believes that even huge pension funds, currently constrained by fiduciary responsibilities to invest in large, liquid companies, will break off chunks of capital and find ways to work them into more niche markets.

Finding targets for that money will be no problem. Pratt recently searched a database of all The Dun & Bradstreet Corp. companies in the United States and found 133,000 with annual revenues of more than $10 million, and 117,000 of those were private. At the low end of the scale, he found 82,000 companies in the $10-million-to-$25-million range—and 77,000 of those were private.

Steven P. Galante, publisher of *The Private Equity Analyst*, a newsletter that tracks private-equity investment, echoes Pratt. "Right now there's a strange dichotomy between the valuations in the private market, which are very fair, and the companies that are being funded in the stock market at high valuations." As more venture investors exit their current deals at favorable valuations—which then translate to the private

PHOTOGRAPH MILLICENT HARVEY



Morley: 'The recession will someday end, and investors will look to venture capital as a place to get a higher return on their money.'

market—greater parity between the two is likely, Galante says.

Stanley Pratt states the case more forcefully—and from a different perspective. "Smaller businesses have always had the potential to be more effectively managed," he adds. "Now we are finding ways to create operating and strategic partnerships to bring that about."

THE SMALL COMPANY

Flat, fast, and here to stay, small businesses will become still more prominent

The quality of the IPO market is far higher this time around than during the big boom of the early '80s, Pratt asserts. "At this point 70% of the companies that went public in 1991 are higher than their IPO price," he says. "By June of 1984 only 20% of the companies that went public in 1983 were higher than their IPO prices. A lot of quality companies are coming public now." Pratt sees such quality as a harbinger that small companies have value for intrinsic, not just psychological, reasons. In short, the market is saying that small companies will become more permanent—and more prominent—fixtures on the economic landscape than currently imagined.

That notion is borne out by the research of Steven Davis, who teaches business economics at the Graduate School of Business at the University of Chicago. Small companies have in fact had a greater role to play since 1970, when large U.S corporations began to shrink their payrolls, he says. "Two fundamental trends over the past 20 years have made small businesses more important," he says. First, the shift from manufacturing to services has created a constellation of suppliers to larger companies. Second, the globalization of the economy has forced U.S. manufacturers to produce goods of higher value with fewer, better-trained, and better-paid workers.

That has led not only to the breakup of large companies into smaller units, but also to the creation of companies that need to remain small and flexible to survive.

Staying small and flexible is now possible because the increasing affordability and access to computer technology has given small companies a competitive advantage they previously lacked, says Bill Bygrave of Babson College. "Twenty years ago the only companies that could afford technology were big companies like Sears and General Motors. Now the smallest company can put in a powerful computer system cheaply."

The cost of computer technology will continue to tumble, allowing smaller companies to achieve the leverage and results of larger organizations, without the bureaucracy, Bygrave says. That will give rise to more and more organizations oriented around what he calls the four Fs: flat, fast, focused, and flexible. "The notion of scale economies will be overthrown in the 1990s," he says.

Support for Bygrave's conclusion can be found in the growing efforts by large companies to develop networks of small and agile suppliers. As large companies endeavor to do more business with small ones, the contributions of the latter will become more legitimate and valued.

STRATEGIC PARTNERING

Eager big companies will become a growing source of patient development capital

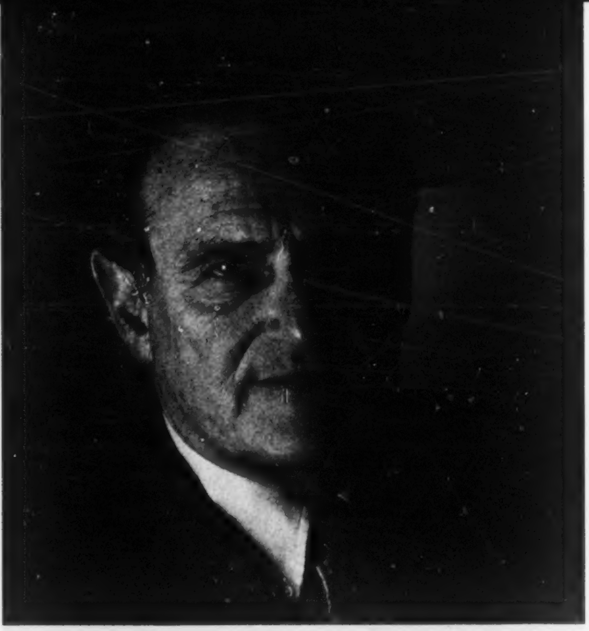
Bill Bygrave likes to makes a distinction between the words *innovative* and *entrepreneurial*. Many large companies, plowing large sums into research and development, are plenty innovative. They are not, however, very entrepreneurial, by which he means "in touch with the market." They do not know how to cash in on their innovation effectively. Big companies increasingly are moving to rectify this weakness. For example, in 1991 IBM entered into at least a dozen separate strategic alliances with software companies from Apple Computer Inc. on down.

The need of big companies to form joint ventures with small companies will only grow, says Edward Roberts, a technology-management professor at the Massachusetts Institute of Technology Sloan School of Management. He gives two related reasons. First, the rapid pace of technological change confronts corporations with "an increasing number of technologies to be mastered." The most practical way to do that is to engage the skills of small, technology-based companies focused on niche markets. For example, Roberts recalls a former graduate student, now working as Microsoft Corp.'s product manager for pen-based technology, who recently stopped by to see him on a visit to Boston—he was in the midst of calling on the *seven* companies in the area with which Microsoft has joint-venture agreements. Second, Roberts says, large companies in a competitive global economy realize they must return to their "core competencies." They must focus. That heightens the need to rely on small suppliers.

The resulting benefits for small companies are considerable. They gain improved access to a steady stream of patient development capital. They gain access to channels of distribution that are often global in scope.

Roberts sits on the board of one such small player, Advanced

PHOTOGRAPH: MILLICENT HARVEY



Pratt: 'Smaller businesses have always had the potential to be more effectively managed. Now we're finding ways to do it.'

Magnetics Inc., which develops contrast agents that are used in magnetic-resonance imaging of the body. Annual sales total a little more than $12 million, yet "much of the board's time is spent discussing alliances with large companies," Roberts notes. For good reason. Advanced Magnetics currently has strategic alliances with six major pharmaceutical companies on three continents.

Big companies search out small ones for one basic reason, believes Advanced Magnetics CEO Jerry Goldstein: they are more innovative. Beyond that, the leverage for big companies is huge. Last year Bristol-Myers Squibb Co. entered into an $11-million transaction with Advanced Magnetics, developing products targeted at billion-dollar markets. "Bristol-Myers is a $10-billion company," says Goldstein. "To it, $10 million is inventory breakage." For these reasons, Goldstein sees strategic partnering as "absolutely increasing" in the years ahead. As an example, he cites Sandoz Corp., the Swiss pharmaceutical giant, which budgeted $1 billion for strategic alliances with small biotechnology companies.

A network of strategic alliances will also proliferate in all industries and for more down-to-earth reasons, asserts Paul Reynolds of Marquette University. Some of those reasons include the improvement in communication systems, the rebuilding of the infrastructure, and the institutionalization of just-in-time manufacturing. "All those factors make it easier for large companies to create linkages with outside suppliers."

That jibes with the model that James Womack envisions. Womack is an MIT researcher and coauthor of *The Machine That Changed the World*, a book that chronicled the rise of the top Japanese car companies through their use of lean manufacturing techniques. Large, vertically integrated companies such as GM have failed, Womack asserts, "because you can't replicate the market's discipline inside a bureaucracy." By the same token, Womack considers the vision of the lone entrepreneur trying to compete in a global economy as "naïve and romantic." Womack argues for a "shared destiny" between large U.S. companies and their small suppliers in which information—particularly concerning costs and technical know-how—is exchanged more freely. That will result in greater trust and sense of mutual dependence—critical factors in a world where the United States, in the aftermath of the Cold War, must now project economic, not military, power. "We're now living in a commercial world, not a geopolitical one," says Womack. "Big and small companies need to work together in a more dynamic fashion."

THE ENTREPRENEURIAL ALTERNATIVE

Starting your own company is becoming a more viable career path

Between 1980 and 1990 the *Fortune 500* companies shed some 3.5 million jobs. Yet the economy in that time created some 23 million jobs. "In the United States there's a real driving force for people to get started in their own businesses," says Bruce Kirchhoff, who studies business formation at Fairleigh Dickinson University. In fact, even during the depths of the 1981–82 recession U.S. businesspeople were starting companies at a healthy clip. "Americans seem to form businesses no matter what," Kirchhoff says. "People chug along. The human driving force is stronger than the economy."

In the years ahead economic reality may well hasten the need for people to keep on chugging. As Paul Reynolds points out, "For large companies now, their biggest fixed investment is not plant but people." Translation: big companies will continue to shed jobs.

And the people who lose those jobs will consider becoming entrepreneurs more seriously than ever. Rick Burnes, a venture capitalist who sees entrepreneurs coming out of larger companies, adds, "People are more willing to take risks because so many theoretically stable companies are now not so stable. Going out on your own and starting a company is becoming a more viable career path."

Meanwhile, Paul Reynolds notes, "about one in five U.S. businesses is created or destroyed every year. That's one in eight jobs offered by private-sector employers. The evidence shows that is just part of life in a dynamic economy."

A healthful by-product of dynamic growth, however, is more than just new jobs and vibrant companies. It is also a fresh perspective. As old contracts—lifetime corporate employment, say—wither away, new ones are forged.

Dick Morley, the angel investor, sees a return to investing at the grass-roots level as more than evidence of the economic principle of money chasing the highest return. It also reflects an increased awareness of where that money is going. "Venture capital has historically failed when it becomes a totally financial game," says Morley, who believes the game is changing for the good. "What we do is return some funds to the community. A union pension fund that ends up investing in a small start-up wants to create jobs, not just move them around."

Then he adds one last thought: "Besides, this is also fun." ❑

—*Edward O. Welles*

PHOTOGRAPH: MILLICENT HARVEY

THE YEAR IN IPOS

Investors flock, capital flows, and records fall. Initial public offerings are back

BY ROBERT A. MAMIS

THE INITIAL PUBLIC OFFERING window, where humble private businesses sell overvalued slices of ownership to hopeful investors, was shut so tight in early 1991 that it seemed more productive to apply to lenders than to underwriters for financing. In the first three months of 1991 a mere 35 IPOs entered the public market—a drizzle that, had it continued, would have turned the year into the worst climate for new public companies since 1982.

Fortunately for investment bankers, venture capitalists, and locked-in founders, the pace grew hotter with the weather—and the stock market. In June alone there were 48 IPOs, and by calendar's end, with the Standard and Poor's 500 stock index up a rare 26%, 1991 had sired 395 public corporations, including 63 purely capital entities, such as mutual funds, financial institutions, and blind pools. While the total lagged behind a couple of brisker years, the dollar amount they raised—$24.8 billion—was Wall Street's highest yet, exceeding second-place 1987 by more than half a billion. The average flotation, $42.7 million, also set a new-issue record, asserting that there are plenty of hard-spending risk takers out there, even without a change in the capital-gains tax.

Granted, among the major beneficiaries of the spending spree were more than a dozen leveraged buyouts. These once-public companies had been taken private in the 1980s, when junk bonds were the craze, and were now returning to the public arena with their tails between their legs. More significantly, however, 1991's massive IPO financing trickled substantially into the coffers of small companies, providing even such incomeless operations as biotechnologists and research-and-development outfits with enough patient backing to give profit making the old college try.

Debt-saddled LBOs seeking surcease through a return to the public equity market included huge Owens-Illinois, at $528 million the year's largest IPO; Duracell International, $366 million; and York International, $184 million. Not to be outdone by the Stop & Shop chain's public reappearance with a $170-million offering, two relatively small food dispensers went public for the first time: Smart & Final, a warehouse grocery chain, with a $95-million offering, followed by Super Rite at $32.6 million.

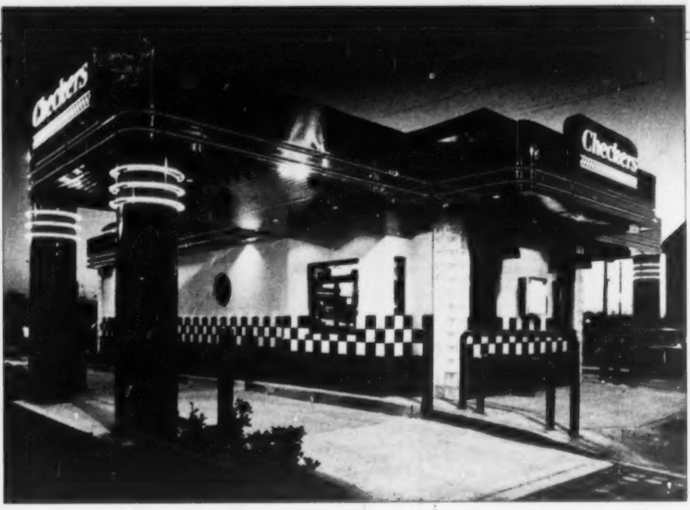
On sale as a factory reject was AnnTaylor Stores, whose since-banished CEO was being paid $2 million a year to oversee the 177 outlets' steady decline. An LBO spun out of Canada's bankrupt Campeau Corp., AnnTaylor marketed its IPO stock better than its fashionable off-the-rack stock: seven and a half months after the successful flotation the price per share had plunged 42%. Retail liquidator Filene's Basement was a similar but far less defective piece of returned merchandise. Freed by way of a public offering from the ham-handed folks upstairs at Federated Department Stores, its stock more than doubled in eight months.

At least part of the difference between the two retailers was that the year's economic frame of mind favored operations that proffered basic goods at basic prices. The frugality of The Basement echoed the turn-of-the-century theme of Montgomery Ward, J. C. Penney, Sears Roebuck, and the like—all merchandisers that have grown too cumbersome to adapt that theme to the consumer climate at the end of this century. In their place 23 small retailers boldly went public in 1991, many of them delivering double-digit stock-market returns before year end. Among them, Rag Shops (a June IPO) gained 80%; Goody's Family Clothing (October), 77%; and December IPO Sam & Libby returned 36% in only 28 days.

All this—performed at the core of a shopper meltdown—added up to 21 apparel-manufacturing and -retailing enterprises going public. Demonstrating how times have changed, only one retail IPO, CompUSA, sells computers. After a decade-long trend that had electronics manufacturers at the front of the parade, not one 1991 new issue makes a computer system.

The year 1991 documents that the repository of speculative capital has pretty much moved from junky garages to antiseptic laboratories. Strongly outpacing the 12% health-industry component of the 1990 gross national product, nearly 30% of the operating-company IPOs were involved with health products, instruments, or delivery. All of the first five IPOs out of 1991's

PHOTOGRAPH: C. LACROIX/GAMMA LIAISON



Not only are there no tables inside a Checkers Drive-In, there's hardly an inside at all—just enough for three takeout windows.

slow-to-open gate are health-related enterprises, as are 110 of the year's 395 IPOs.

Indeed, using only the products of 1991's medical and biological issues, you could just about construct an entire body, adapting such components as Somatogen's blood substitutes, Danek Group's spinal implants, Osteotek's bones, and Mitek Surgical Products bone connectors. If in the end it didn't tick, you could turn to Stewart Enterprises' death-care services.

Of that array of medical and biological entities, four companies concentrate on the betterment of beasts rather than humans. Deprenyl Animal Health, public last March, makes veterinary pharmaceuticals. BallistiVet markets a system to implant pharmaceutical "biobullets" in livestock. A third, Veterinary Centers of America, conducted its dog-and-pony shows in October.

The products of bioscience lab Embrex are designed to help raise healthier chickens.

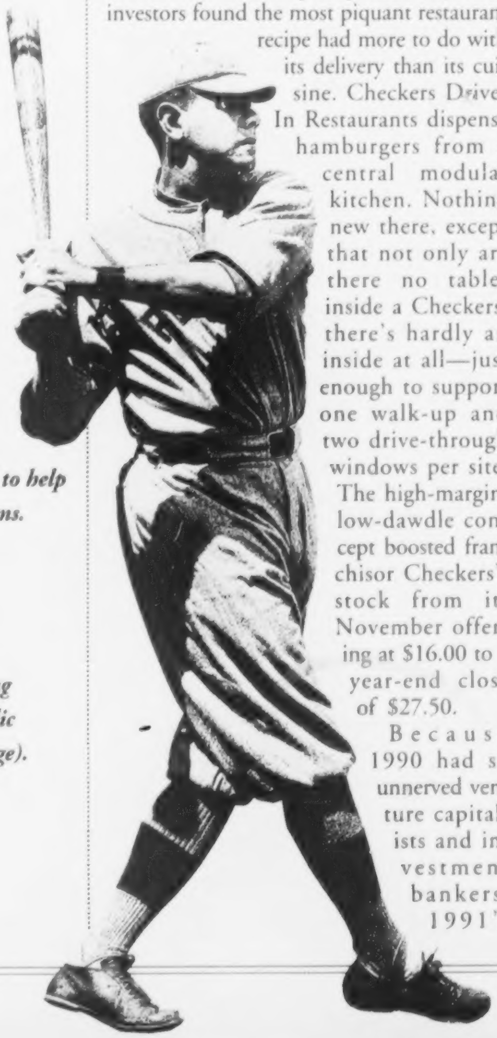
Further defining a marketing trend toward the promotion of animals' well-being, the products of bioscience lab Embrex are designed to help raise healthier chickens.

One of the year's largest IPO fundings went not toward saving lives but toward smearing them. Raising $151.2 million, The Enquirer/Star Group, publishers of checkout-stand reading material, came out in July. To handle its products and other detritus, four companies involved in waste management and environmental cleanup also went public in 1991.

Some businesses wash the hands of others, neatly fulfilling the free market's get-you-coming-and-going tradition. Even as Saratoga Brands deep-fries potato chips, and Suprema Specialties concocts gourmet cheeses, Jenny Craig's weight-loss centers trim the fat off the land. And as Candy's Tortilla Factory pounds out corn pancakes, and Interstate Bakeries devise succulent pastries, Bio-Dyne assembles exercise equipment.

Food definitely was big in 1991. A pair of peanut processors also contribute to the common girth: Jimbo's Jumbos and John B. Sanfilippo & Son. With fare ranging from IHOP's waffles to Bertucci's pizzas, a platter of eight eatery chains mold yet more clients for the shape-up industry. But investors found the most piquant restaurant recipe had more to do with its delivery than its cuisine. Checkers Drive-In Restaurants dispense hamburgers from a central modular kitchen. Nothing new there, except that not only are there no tables inside a Checkers, there's hardly an inside at all—just enough to support one walk-up and two drive-through windows per site. The high-margin, low-dawdle concept boosted franchisor Checkers's stock from its November offering at $16.00 to a year-end close of $27.50.

Because 1990 had so unnerved venture capitalists and investment bankers, 1991's

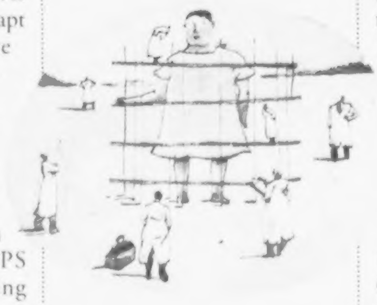


Sports Heroes, Megacards, and Sports Media exploit adulation of top pro athletes.

Despite a shopper meltdown, 21 clothing companies went public in 1991 (opposite page).

ILLUSTRATION: BARRY BLITT

deals tended to be more reasonably priced than IPO avarice generally allows. As modest but welcome proof, 12 issues leapt 50% or better as soon as they were released from the underwriting syndicate. The leading first-trading-day gap was chalked up by a manufacturer of product-safety tests. Ropak Laboratories' offering was bid on the open market at 122% the IPO price. The next 11: Alteon, an R&D company in diabetes drug therapy, up 92%; IPS Health Care and Healthcare Imaging Systems, both in magnetic-resonance imaging services, up 88% and 70%, respectively; Megacards, publishers of sports memorabilia, up 70%; Cybernetics Products, a manufacturer of tools and equipment for the electronics industry, up 67%; Medical Marketing Group, a licenser of pharmaceutical-marketing programs, up 66%; Sepracor, a manufacturer of pharmaceutical compounds, up 55%; Grand Casinos, a developer and manager of gambling facilities on native American reservations, up 55%; Mitek Surgical Products, a supplier of implants, up 55%; Licon International, a maker of industrial-waste-cleanup equipment, up 53%; and Seismed Instruments, a manufacturer of cardiology instruments, up 50%.



Using only the products of 1991's biological issues, you could just about construct an entire body.

ADAMS
ER QUEE

Valley Systems, an industrial-cleaning service, enjoyed the year's largest stock gain—it nearly quintupled its IPO price.

Old-time marketers hold that a sudden strong move in a stock is soon followed by another strong move. On balance, however, the dozen fast starters just described gainsay that assumption. Despite the steady advance in the secondary-stock market overall—the NASDAQ Composite Index was up 57% for the year—8 of those early movers subsequently eased from their first-trade heights. Three actually ended the year even lower than their IPO prices. Only 4 of the top 12 kept climbing.

The number of companies simultaneously going public and earning a place on the *Inc.* 100 (see chart on page 118) was disproportionately plentiful in 1991—more than twice the norm. Oddly, of the 19 IPOs that demonstrated sufficient revenue growth to make the list, 9 are computer related. By contrast, there was no biotech company, fast fooder, retailer, or apparel manufacturer.

Apparently, brisk revenue growth counts for little when it comes to aftermarket IPO investment. Only 3 of the *Inc.* 100's IPOs are among the 38 IPOs whose stock doubled or more by December 31: Value Health, Quarterdeck Office Systems, and Mitek Surgical Products. Was it profitability that counted? Hardly. Whereas Quarterdeck's prospectus paints a rosy five-year history of uninterrupted earnings growth, Mitek's shows a dreary pattern of losses.

The average deal, whose average share cost $11.43, gained 30% over its offering price by December 31. Just 9 were reduced by more than half in the aftermarket. Valley Systems, an industrial-cleaning service with $14.9 million in revenues in 1990, enjoyed the year's largest increment, nearly quintupling its offering price. In second place, with a gain of 373%, was MedImmune, a developer, manufacturer, and marketer of vaccines. The perennially profitless corporation lost $4.1 million on 1990 sales of $3.3 million. Such is the magic of raising capital through a public offering: try getting a banker to lend you $23 million—the sum MedImmune fetched in its IPO—with a history of no earnings.

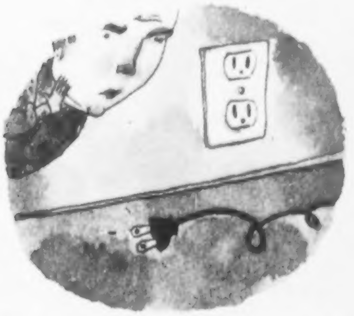
As always in young-company IPOs, it was buyer beware. Hardly had six-year-old Ropak Laboratories traded at more than double its offering price when it released first-quarter results. Unfortunately for its high-flying stock, those results showed a loss of $907,000 on revenues of $281,000. Ropak Labs' stock wilted. Was the loss sneaked in under cover of IPO by management or an underwriter in an attempt to mislead investors? Not at

ILLUSTRATION: BARRY BLITT; PHOTOGRAPH: THE BETTMAN ARCHIVE

all. As the Securities and Exchange Commission requires, the offering prospectus had diligently disclosed—to the few who bothered to read it—all that was known about the company at the time, including the probability of the upcoming debit, due to a onetime write-off. Of course, the company probably could have taken the write-off prior to the offering. But then it might not have raised as much capital to absorb it.

Like the contents of a time capsule, a sampling of 1991 offerings vividly portray U.S. culture toward the century's end.

□ Video Lottery Technologies, which manufactures video-game terminals that are installed in bars and then shares revenues with the government, raised $39.9 million. Advanced Promotion Technologies, which designs and markets video-screen advertising at supermarket-checkout counters, raised $18 million.



□ Ezcorp, which operates pawn shops, raised $24.4 million. First Cash, which also operates pawn shops, raised $4.5 million. The Money Store, which makes personal loans, raised $35.2 million. World Acceptance, which makes consumer loans, raised $21 million. Credit Depot, which extends high-risk loans, raised $3.9 million.

□ Marvel Entertainment Group, North America's largest creator and publisher of comic books, featuring Captain America, among others, raised $69.3 million.

□ Sports Heroes, Megacards, and Sports Media all exploit adulation of top professional athletes, who, by the way, sign contracts worth more than any of those companies was able to raise—$4.5 million, $4.1 million, and $3.8 million, respectively.

□ Insurance Auto Auctions, which buys totaled cars from insurers and resells them, raised $22.9 million. Custom Chrome, which manufactures and distributes parts for Harley-Davidson motorcycles, raised $25 million.

□ Koo Koo Roo, which franchises fast-food dining, raised $6.3 million. Sonic, which franchises *really* fast-food dining, raised $46.3 million. The aforementioned Checkers Drive-In Restaurants, which franchises fast-as-you-can-motor-through-them dining, raised $33.6 million.

□ Restor Industries, which repairs pay telephones, raised $5.3 million.

Even a railroad, Wisconsin Central Transportation, managed to sell itself into the public market in 1991. The carrier proved that 1991's IPO window opened plenty wide for those prepared to chug on through. The many private companies wary of Wall Street's promise of easy money might do well to observe that the slightest amount of money raised by an operating company in a 1991 IPO was a hefty $2 million by Lancit Media Productions, a very small-cap producer of television projects. Lancit stock came out at $1.50 in June and ended the year at $4.00. In six months its owners had become 167% richer.

Still want to keep trying your banker? ❑

This article is based in part on data supplied by IDD Information Services, in New York City.

Marvel Entertainment Group, North America's largest creator and publisher of comic books, raised $69.3 million.

After a decade of electronics manufacturers leading the parade, not one 1991 IPO makes a computer system.

1991's Most Active Managers

The role—and income, at 10% or so of gross—of investment banking was revivified in 1991. The 10 underwriters bringing the most IPO deals to market:

Firm	*Number of deals*	*Total ($ million)*	*Average raised ($ million)*
1. ALEX. BROWN & SONS	**38**	**$5,948**	**$157**
2. MERRILL LYNCH	**21**	**3,682**	**175**
3. GOLDMAN, SACHS	**21**	**2,869**	**137**
4. FIRST BOSTON	**20**	**1,631**	**82**
5. PAINEWEBBER	**19**	**961**	**51**
6. SHEARSON LEHMAN BROS.	**17**	**1,598**	**94**
7. MONTGOMERY SECURITIES	**15**	**446**	**30**
8. MORGAN STANLEY	**13**	**1,173**	**90**
9. SMITH BARNEY, HARRIS UPHAM	**13**	**369**	**28**
10. ROBERTSON, STEPHENS	**13**	**350**	**27**
TOP 10 TOTALS	**190**	**$19,027**	
TOTALS FOR ALL IPOs	**395**	**$24,843**	

ILLUSTRATION: BARRY BLITT

TRADE SHOWS

Stretching the Trade-Show Budget

MEASURING THE SALES RETURN ON TRADE SHOWS IS A TRICKY business; you can't always trace sales back to the show. You can, however, stretch your marketing dollars by targeting your efforts before the big event:

- **Contact prospects before the show.** Margaret Rodenberg decided to forgo a booth altogether in favor of a preshow campaign. Rodenberg, head of sales and marketing at Viteq, a maker of computer-power supplies in Lanham, Md., banked the $80,000 she would have spent. Instead, weeks before the show, she sent 180 prospects a catchy direct-mail piece—a box in a box—that cleverly packaged product literature, a sample, and a card to send in to receive a premium.

  "It's a jaded market, and we knew that just sending a number 10 envelope wasn't going to make it." While 22 people responded, all 180 got calls from Viteq's regional sales managers, who further qualified prospects and set up 27 appointments at the show. Within four months Viteq closed long-term deals worth $130,000 with 8 of the people. The cost, from direct mail to hotel limo service: less than $12,000.
- **Know your goals going in.** Callaway Golf wanted to introduce its new club, Big Bertha, and position itself as a big player before the widest possible audience of buyers. So during the 1991 PGA show in Orlando, the Carlsbad, Calif., company bought a full-page ad in the Southeast edition of the *Wall Street Journal,* extolling the virtues of Big Bertha. The paper, with a sticker on the front page directing readers to the ad, was delivered to attendees' hotel doors. "The entire golf world was sitting in one town, and half the people thought we did the ad nationally," says CEO Ely Callaway. The $12,000 black-and-white ad went a long way toward helping the company more than double its sales in 1991, to $54 million.

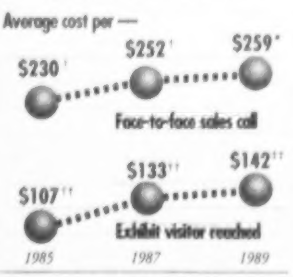
—*S. G. and Tom Richman*

BENCHMARK

Trade Shows Versus Face-to-Face Selling

Compared with the ever-rising cost of a sales call, trade shows still appear to be a relatively cheap way to reach potential customers — provided you've selected the right show (see "Trade-Show Stoppers," at right) and kept your total exhibit costs under control. If you're spending more than $142 per trade-show prospect, you may be spending too much, warns Richard Swandby, president of Exhibit Surveys, which polls some 18,000 attendees of 60 trade shows each year.

Swandby has found that the "exhibit cost per visitor reached" (how much it costs to reach the people who visit a booth and express interest in the product) remains the same for exhibitors from both small and large companies. How many visitors can you expect? On average, 16% of any trade-show audience may be interested in your product, says Swandby. However, an effective preshow promotion (see "Stretching the Trade-Show Budget," above) can increase traffic at your booth by as much as 33%, according to the Trade Show Bureau, in Denver.



Source: †McGraw-Hill Research, New York City; ††Exhibit Surveys Inc., Middletown, N.J.; *Cahners Advertising Research, Newton, Mass.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

RESOURCES

Trade-Show Stoppers

Here are two practical guides to help you plan your next trade-show campaign:

- **Trade Show Marketing Idea Kit.** Free 50-page booklet from a trade-show-display company. Includes worksheets for budgeting, tracking sales, and measuring results; and articles on selecting the right show and designing the ideal lead card. To order the booklet, call Skyline Displays, in Burnsville, Minn., 800-328-2725. Or request by fax, 612-895-6318.
- **Twenty Proven Techniques for Generating More High Quality Show Leads.** Free 2-page tip sheet from consulting firm the Mac McIntosh Co., at 800-944-5553.

—*S. G.*

DISTRIBUTION

The CEO As Sales Rep

SHARON SCHNEIDER, FOUNDer of Schneider Educational Products, in San Francisco, was losing money even as she hired more sales reps for her line of finger-puppet books for preschoolers. Just as distressing, she hardly recognized the business she had started in late 1989 with two young children in tow and a desire to "make a contribution in a tangible way."

To their credit, the sales reps she'd used for a year got her books into some 1,000 independent bookstores. But then, says Schneider, "I realized that was crazy. I had major problems getting paid by the bookstores. And when you deal with rep groups, you may know only a couple of people in the organization. When you don't know which people are selling your stuff, you don't know if they're selling to the wrong places. Finally I thought, I've just got to do it myself." Early last year she dropped all 45 sales reps and took sales and distribution into her own hands.

While sales reps make sense for some young companies, going it alone paid off for Schneider, who employs just one part-time worker. It forced her to focus her selling efforts. She decided to concentrate on museum and aquarium stores because of their initial interest, the potential market (museums host upwards of a million visitors a year), and scant competition.

"Once I started to move in that direction, it felt good in a lot of ways. When I called people to ask if our new Ocean Magic books were doing well or not, I got reasons that made sense to me. And they were more open to suggestions."

Schneider's new focus also freed her to slowly pursue a variety of distribution channels. In a year's time she placed her products in Walt Disney's Epcot Center store and several teachers' and book-club catalogs. Ultimately, national bookseller B. Dalton agreed to test her books in 300 stores.

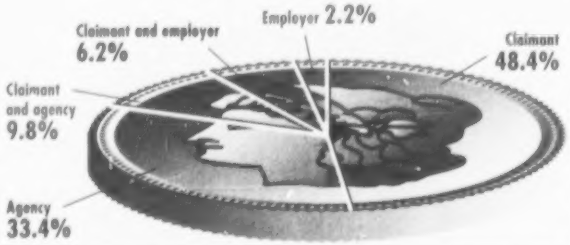
While Schneider has traded faster sales growth for her independence, getting paid on time is no longer an issue. The company is running in the black. Sales doubled in 1991, to $100,000, and Schneider expects sales to double again this year.

"I was afraid that some people wouldn't deal directly with me, but if your product's good for them, they'll make exceptions." —*S. G.*

BENCHMARK

Who's at Fault for Unemployment Overpayments?

The Department of Labor's Quality Control report for 1990 shows that, for the most part, employers aren't to blame for unemployment-insurance overpayments. (See "The Hidden Cost of Firing," below.) Claimants and the state unemployment agencies are most often at fault, according to the judgment of the quality-control investigators. That suggests that companies would do well to monitor their agency and to advise terminated employees about their eligibility for unemployment-insurance benefits.



Source: Department of Labor Quality Control 1990 Annual Report, Washington, D.C.

WORK FORCE

The Hidden Cost of Firing

EVERY TERMINATED EMployee who files a claim for unemployment insurance causes your unemployment-insurance rate to rise. That's acceptable if the claim is appropriate. But all too often, it's not.

Charlie Christopher, owner of Christopher's, a restaurant in Cambridge, Mass., recalls the worker who walked out one day, never to return. Another admitted to stealing $6,000. Both filed claims to collect unemployment insurance. "It's not fair to the system or to me," complains Christopher.

The system *is* often abused. The Department of Labor reports that states overpaid claimants $1.3 billion in 1990. That means employers were charged too much. And those overpayments translate into higher taxes.

The worst offenders: Alabama, Arizona, Indiana, and New Jersey, which overpaid 16% to 19.3% of the dollars they doled out. Employers aren't responsible for most of these errors. (See chart, above.) Your best defense against being overcharged is eternal vigilance over your local unemployment-tax office and, to the extent possible, over terminated employees. Call your local unemployment-tax office to request details on claims made and the calculation of your tax rate. When employees depart, tell them if they are eligible for insurance and give them a copy of their attendance record.

You might consider hiring a company, as Christopher did, that will monitor and audit unemployment claims and tax rates. The Association of Unemployment Tax Organizations (614-224-7221) will send you a list of its members. —*E. E. S.*

LEGAL BRIEFS

Steps to Discourage Harassment

IF YOU WANT TO DISCOURAGE SEXUAL HARASSMENT IN YOUR company, consider following these routinely prescribed steps:

- **Adopt a sexual-harassment policy.** Make a personal statement to your employees before distributing the policy. Build it around your company's values and the Equal Employment Opportunity Commission's definition of harassment. (See box.) Promise that grievances will be quickly and thoroughly investigated. Explain the disciplinary measures to be taken against those who harass and those who bring false charges.
- **Provide employees with meaningful recourse.** Find two neutral yet powerful people to whom employees can bring grievances. The person in charge of the company is one natural choice. For the other, pick someone from inside the company or a close outside adviser. Or give employees the option of complaining to the EEOC.
- **Investigate promptly.** Take all complaints seriously. That kind of action speaks louder than words to your employees, and it's also the best line of legal defense.
- **Take appropriate action.** Keep your policy's promise of disciplinary action, if appropriate. Above all, don't let the complaining employee feel he or she was treated perfunctorily.

> "Unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature constitute sexual harassment when (1) submission to such conduct is made either explicitly or implicitly a term or condition of an individual's employment, (2) submission to or rejection of such conduct by an individual is used as the basis for employment decisions affecting such individual, or (3) such conduct has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile, or offensive working environment."
>
> *—EEOC's definition of sexual harassment*

Education is crucial in understanding the disparity between the ways men and women view certain kinds of behavior. (See this month's FaxPoll, "What Are You Doing About Sexual Harassment?" page 23.) Consider joining with other small companies to hire a training consultant. Or educate with videos, by reading (see below), and through discussion. Above all, remember that your visible commitment must underpin your program if it's to be taken seriously. —*E. E. S.*

▼ ▼ ▼ ▼ ▼

RESOURCES

Sexual-Harassment Guides

If you're devising an education program, consider these resources:

"All the Wrong Moves: A Story of Sexual Harassment in the Workplace," a video produced by the Dartnell Corp. (800-621-5463; cost to rent, $140; to purchase, $495).

Sexual Harassment Manual for Managers and Supervisors, a 48-page booklet from Commerce Clearing House (800-248-3248; $12.50), is all you need to read to understand this knotty issue.

The EEOC's Sexual Harassment Package (202-663-4900; free) contains a fact sheet, the EEOC's lengthy guidelines for employers, and the guidelines for determining sexual discrimination. —*E. E. S.*

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

CASH FLOW

Getting Useful Financial Information

MILLROCK, A 12-YEAR-OLD, $5-million manufacturer of display racks and fixtures, was slow to recognize the need for financial controls. "We were growing so fast, we thought, Why bother?" recalls Martin Liebmann, president of the Sanford, Maine, company.

But when Millrock started losing money, Liebmann knew he could use better financial information. He hired Raleigh Minor, a vice-president of turnaround specialists Allomet Partners, in Savannah, Ga. "Minor emphasized that our business was suffering because management couldn't rely on financial controls and a reporting system," says Liebmann. "I recognized it would help if we could generate timely and accurate numbers. But I worried about becoming obsessed with financial minutiae."

Liebmann's anxieties are common. But financial-control systems can be tailored to the needs and corporate temperaments of all types of companies. (See Minor's five cardinal rules, far right.) Millrock set up a system that provides Liebmann with four essential details: (1) weekly accounts-receivable breakdowns, (2) weekly sales figures (compared with projections), (3) weekly inventory updates, and (4) monthly accounts-payable reports.

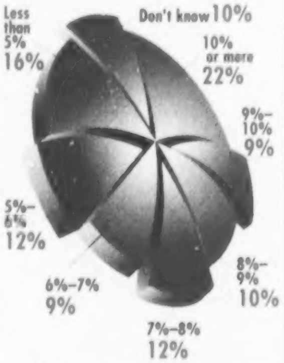
"The financial controls helped me understand the changes and flow of our business," says Liebmann. "Once again, we're back on target with growth and profitability." —*J. A. F.*

BENCHMARK

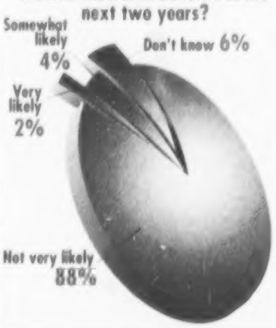
Insurance Costs and Commitments

Although medical-insurance costs add up to a hefty percentage of payroll costs, a recent survey of 1,825 growing companies, conducted by the accounting firm Grant Thornton, found that most intend to continue providing at least a basic level of coverage for their employees. That's impressive, given that surveyed companies reported average rate hikes of 18.3% last year alone. But it also reflects small businesses' realistic recognition that they need health insurance and other employee benefits to compete with large corporations for the best-qualified workers.

What percentage of total payroll costs does your company spend on medical insurance?



If costs continue to rise, how likely would you be to drop medical-insurance benefits in the next two years?



Source: Grant Thornton, "Managing Health Care Costs in the 1990s," Chicago 1991.

*Compiled from multiple answers.

FINANCIAL CONTROLS

The Five Cardinal Rules of Financial Controls

TURNAROUND SPECIALIST RALEIGH MINOR OF ALLOMET PARTners, in Savannah, Ga., is convinced that the failure to set up timely and relevant financial controls gets more growing companies into trouble than any other financial mistake does. Here, Minor's five rules for setting up financial controls:

1. Generate numbers quickly and accurately. For numbers to be relevant, Minor believes that growing businesses need to compile them no more than 10 working days after each month closes.

2. Establish different timetables for different numbers. All companies have to establish priorities about which numbers to monitor monthly and which to watch weekly. One example: you must pay close attention weekly to inventory accounting and actual numbers, but you should also make calculations and test their accuracy monthly. Growing companies should also track sales and receivables weekly.

3. Compare results with projections. "To make actual numbers really useful," says Minor, "you've got to know what expectations the company had and how those compare with actual results." Any number of forecasting strategies can mesh well with a financial-reporting system. Minor recommends that companies project for a six-week horizon and then set new projections at the four-week point.

4. Prioritize. Minor suggests developing a "Weekly Condition Report" that covers accounts-receivable information, including beginning balances, cash receipts, and credits; cash-position updates; recent sales; accounts-payable activities and outstanding obligations; order backlogs; detailed breakdowns of all cash disbursements; and current employment figures, including a sales-per-employee ratio. He recommends reporting those numbers in two columns, one showing management's most recent projections, and the other representing current realities.

5. Circulate financial reports to responsible managers. Although circulation lists will differ by company, Minor recommends that weekly and monthly updates be sent to the CEO, sales manager, controller or chief financial officer, and the operations or manufacturing manager, as well as other key personnel. —*J. A. F.*

▼ ▼ ▼ ▼ ▼

A SCHEDULE FOR TRACKING KEY RESULTS

Which numbers—and financial trends—should management be tracking, and how frequently? Raleigh Minor recommends the following blueprint:

Monthly updates on—

- **inventory** (including accounting or physical tests of accuracy);
- **accounts-receivable "average days outstanding";**
- **accounts-payable obligations,** complete with an aging breakdown.

Weekly updates on—

- **current cash position,** as well as details about how much was received, when, and from whom;
- **cash disbursements,** broken down into as many specifics as possible—payroll, materials, purchasing, insurance, and so on;
- **new sales;**
- **accounts receivable**—breakdowns for beginning balances, outstanding credit, and cash receivables;
- **accounts-payable payments;**
- **order backlog;**
- **number of employees,** supplemented by various productivity calculations such as a sales-per-employee ratio. —*J. A. F.*

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

BUSINESS FOR SALE

WASHINGTON SKI MOUNTAIN

THE BUSINESS A 25-year-old ski resort, with 30 runs across 2,000 acres, on the sunny side of the Cascades—a two-and-a-half-hour drive from Seattle, and 12 miles from Wenatchee, Wash., the Apple-growing Capital of the World. Lift tickets account for 60% of revenues; the rest comes from food, a ski school, and ski rentals. The mountain relies mostly on natural snow and usually operates from December to April.

FINANCIAL SUMMARY

	1989	1990	1991
Gross revenues	$1.28 million	$1.03 million	$1.08 million
Recast earnings before interest, taxes, depreciation, and owner compensation	$27,500	($182,000)	($242,000)

PRICE Best offer

OUTLOOK Ski resorts today do well, say experts, to operate at 33% of capacity, and at the current seasonal pace of 57,000 skier visits, this mountain is in the 20% range—compared with 30%, three years ago. There are about half a dozen ski mountains closer to Seattle, but this one, by virtue of its Eastern Cascade location, boasts significantly more sunshine and fluffier, drier snow. One problem: the mountain has no lodging, and it needs it to become the kind of destination resort that can keep up with competitors. Current ownership is looking for a deep-pocketed buyer who will make the $6-million to $8-million investment necessary to effect the transformation.

PRICE RATIONALE Best offer, eh? Well, ski-mountain-valuation methods vary; insiders say skier-visit multiples start at $20 ($20 × 57,000 skiers = $1.1 million) and have exceeded $100 for trophy resorts. Cash-flow multiples typically range from five to eight. In any event, those models lose relevance when a mountain's on the skids and it's a buyer's "vision" (willingness to drop major coin for a possibly chimerical return) that counts. Shooting from the hip, the owners originally quoted $500,000 (plus assumption of $350,000 in long-term debt, plus investment promises), but they'll talk with anyone who'll pledge to preserve their mountain.

PROS Colossal growth potential in a very pretty part of the world. Possible motto: Driest Snow in the Northwest.

CONS Vision, when conjuring the future of a fixer-upper like this, is rarely 20/20. *—Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Larry Klaas, 509-663-1827.

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PHOTOGRAPH: H. ARMSTRONG ROBERTS

GOOD FORM: THE WEEKLY CASH-FLOW PLANNER

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How to Use Employees as Headhunters

Educating Your Banker

How to Pay Yourself

The Case Against Computer Piracy

HOW TO SUCCEED WITHOUT A JOB

INC.'S GUIDE TO CREATING YOUR OWN WORKPLACE IN THE '90S

FIRST PERSON:
How My Company Turns Business into a Game, by Jack Stack

PLUS: What a Company Newsletter Can Do for You

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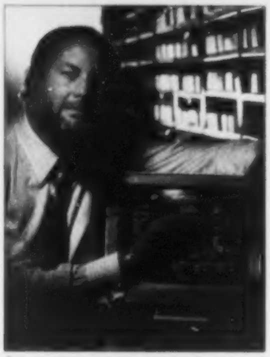

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FYI

Notes from George Gendron, Editor-in-Chief

▪▪▪▪▪▪▪▪▪

How do you shut down one of the most powerful engines of the economy? Stop lending it the money it needs to grow. That's exactly what's been happening here in the United States, according to a survey conducted recently on behalf of the American Electronics Association (AEA). The study focused on 100 banks that had been among the most active lenders to high-technology companies several years ago. Here's how those once-active banks described their recent high-tech lending activities:

Not lending to high-tech companies at all anymore	**66**
Not currently seeking high-tech business	**18**
Still lending to high tech, but with tighter terms	**8**
Still lending to high tech on the same terms as before	**8**

To see whether other commercial lenders might be stepping in to pick up the slack, the AEA conducted another survey of 848 major banks throughout the United States—and found only 6 that had the expertise to lend to high-technology companies and an interest in doing so.

Now if we can just figure out some way to blame this on the Japanese.

THE CHANGING OF THE GUARD First, Paul Hawken called to tell me he'd resigned as chairman and CEO of Smith & Hawken, the garden-tool company he cofounded 12 years ago. "It's been a wonderful odyssey," he said, "but I feel it's time to get back to some of the things I set out to do in the first place." He was referring to the book he's writing, developing the themes in "The Ecology of Commerce," which we published in our April issue. I'm happy that Paul will be writing more and delighted to announce that his work will appear frequently in *Inc.* Still, I have to confess I was saddened by the news of his departure from Smith & Hawken. Back when names like Boesky and Trump dominated the business news, I felt reassured knowing Paul was out there in California, building a company with the simple conviction that there had to be a better way to conduct business. Paul's example, imperfections and all, never failed to inspire me.

The next day I called Paul's old friend Ben Cohen at Ben & Jerry's Homemade, the socially active ice-cream company based in Waterbury, Vt. I suppose I was looking for someone to commiserate with. "Oh, he's not here," said the woman who answered the phone.

BEN&JERRY'S
CHOCOLATE FUDGE BROWNIE
Chocolate Ice Cream with Fudgy Brownies
1 PINT

"Would you ask him to call me when he gets back?" I asked.

"I'll be glad to," she said, "but I hope it can wait till next fall."

"Next fall?"

"Yeah. He's on a leave of absence."

A few days later I got a call from Ben's alter ego, Jerry Greenfield.

"I'm sure he'll use the time off well," I said to Jerry. "Hey, this is the guy who launched 1% for Peace and Rainforest Crunch on his last leave."

"That's true," said Jerry, "but I have the feeling this one is going to be different."

"How so?"

"Well, Ben's bought a studio in Burlington."

"Maybe he wants a place to do some thinking," I suggested.

"I don't think that's it," Jerry replied.

"Why not?"

"Because he also bought an acetylene torch."

"An acetylene torch?"

"Yeah. He says he wants to get into metal sculpture. In fact, he's waiting for me right now. We're heading out to look for a used pickup truck, so Ben can run around and collect scrap metal."

Paul Hawken and Ben Cohen aren't the only ones looking for greener pastures. If recent conversations with CEOs around the country are any guide, half the entrepreneurial population is either on sabbatical these days or preparing to take one—or thinking about getting out of business altogether. Some people chalk it up to the stress of managing in a recession. Others see demographic factors at work, as a lot of founders hit the age at which we start to question what we're doing with our lives. There is no doubt some truth in both explanations. But as I talk to people, I hear something else: a disenchantment with the limits of business. And that makes me wonder whether we all haven't come to expect too much of business and the meaning it can provide in our lives.

►

PHOTOGRAPH: MARK ALCAREZ

RESULTS FROM
MARCH

The Inc. FaxPoll™

ENOUGH ALREADY!

Most of you seem to agree with Henry David Thoreau: "That government is best which governs least."

90%

YES

IS UNNECESSARY GOVERNMENT INTERFERENCE HURTING YOUR BUSINESS?

NO

10%

Well, this *was* a loaded question. "At least you weren't pretending to be objective," one reader chided. No, we weren't. But the opportunity to check the "no" box was there. And only one in 10 of you did, so it looks as though we touched a nerve. Not only did this poll garner the best overall response of any we've done, but respondents were in far greater agreement on this particular question than on any we've ever asked. That was true regardless of the type of company you run or whether your business is local, national, or international. Your answers to the poll and your impassioned comments scribbled in the margins left little doubt that this is a heated issue.

The message is clear. There's too much regulation and "the added costs to meet regulations are killing profits and incentives." Nearly all of you acknowledged the necessity of at least *some* regulation, but most believe "those regulations that make no sense should be pulled." Compliance takes time and resources, which are in limited supply. Even if you want to comply, "far too much time, effort, and energy are spent trying to figure out the right thing to do." And that, to many of you, seems unfair and just plain dumb. "Having the most productive members of society keep books for the government according to its ridiculously complex rules and regulations is a criminal waste of resources."

HOW MUCH EXISTING REGULATION WOULD YOU SAY IS UNNECESSARY?	
Most of it	83%
Little or none of it	10%
All of it	7%

You came down hard on the regulators. Not only don't they understand business, but "they don't care" and "they won't listen." They can't possibly understand you, because they "have never signed the *front* of a paycheck." Regulators won't help you solve the problem; "they only tell you that it exists." And collect the money. Many people groused about inconsistency in enforcement. "My competitors aren't complying and can therefore provide their services at a lower cost." You see a lot of overlap, with "too many agencies duplicating efforts." And even if you want to comply, you must contend with a "lack of knowledge about the regulations and conflicting opinions of the regulators." And in many cases "national standards don't take regional variations into account. We have to test for problems we don't have." But at least one of you admitted that regulators may have their hands tied. "Regulators need the power, and the incentive, to modify standards in particular circumstances where they make no sense."

IN WHAT AREAS HAVE YOU HAD THE MOST SIGNIFICANT PROBLEMS WITH LAWS AND REGULATIONS?*	
Permits/licensing	49%
Federal taxes	44%
State taxes	38%
The environment	33%
Workers' benefits	32%
Inspections/standards	27%
Hiring practices	25%
Land zoning and real estate	20%
Other	15%
Export/import restrictions	9%

WHAT'S THE MAIN PROBLEM HERE?*	
Regulators don't understand business	37%
Too much regulation	33%
Regulations don't make sense	25%
All of the above	16%

What can be done? Do any of the candidates have a clue? George Bush got the most votes, but there's quite a bit of political unrest out there. One-third of you did not choose Bush, Buchanan, Clinton, or Brown, the only four major candidates that remain at this writing. One person said he'd vote for either Pat Buchanan *or* Jerry Brown, possibly an indication of just how desperate some of you are for change. Only 42% want either Bush or Clinton, the likely nominees, in the White House. The Libertarian candidate, Andre Marrou, got 5% of the vote—exceeded by only Bush, Buchanan, and Tsongas—entirely with write-ins. Some of you want as president anyone "who has met a payroll and made a profit for 10 years." That should be music to H. Ross Perot's ears.

The only candidate to have both a reasonably large and reasonably confident following is Pat Buchanan. If you created a "perceived-effectiveness index" by multiplying the percentage of votes a candidate got by the percentage of the candidate's supporters who feel he can do anything about regulation, you would get the following ranking: Buchanan, Bush, Marrou, Tsongas, Clinton, Brown.

—Christopher Caggiano

IF THE ELECTION WERE HELD TODAY, FOR WHOM WOULD YOU VOTE?	
Bush	37%
Buchanan	20%
Tsongas	11%
Undecided	6%
Clinton	5%
Marrou	5%
Brown	4%
Kerrey	1%
Duke	1%
Harkin	1%

WOULD THAT CANDIDATE BE ABLE TO IMPROVE THE REGULATORY SITUATION?	Yes	No
Bush	27%	73%
Buchanan	64%	36%
Tsongas	43%	57%
Clinton	37%	63%
Marrou	97%	3%
Brown	37%	63%
Kerrey	67%	33%
Duke	100%	0%
Harkin	50%	50%

* Note: Multiple responses account for total percentages above 100%

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IDEAS AND RESOURCES FOR GROWING A BUSINESS

Hands On

SALES & MARKETING

Iacobbo and Cabral sound off over the airwaves.

ADVERTISING

Ads with Attitude

ANNOYING RADIO VOICE: Have you ever been hurt? Did you ever think you were hurt? Have you ever dreamed about being hurt? If so, call us, and we'll sue someone for you.

Hi, I'm Dennis Iacobbo—and I'm Ali Cabral—and we're the owners of Job Link. . . . It's attitudes like those that have Rhode Island businesses going belly-up. . . .

BURNED BY A WRONGFUL WORKERS' COMPENSATION SUIT AND angered by sue-happy lawyers' advertisements, Ali Cabral and Dennis Iacobbo decided to get even in a radio ad of their own. Scripted like a public-service announcement, their radio spot was unlike any previous ad run by Job Link, a $5-million temporary-placement and employee-leasing company in Providence. Job Link's phone number wasn't even mentioned. Yet the ad, first aired last fall, prompted a steady stream of calls from business owners, talk-show listeners, and politicians. One company owner even pitched in $75 to keep the ad running.

Encouraged by the response, Cabral and Iacobbo took to the airwaves to sound off about other work issues. Each ad costs about $250 a week to produce and run five times a day on eight area radio stations. Business has picked up 30% over the past six months, Cabral notes. And the ads have boosted Job Link's name recognition. "We still get at least a call a day, and everywhere we go, people say, 'Great ads!' " —*S. G.*

PRICING

Pricing Your Service for Profits

A YEAR AFTER FOUNDING THE Delahaye Group, a $1-million Hampton Falls, N.H., company that tracks public relations' effectiveness, Katharine Paine was in the black. But when she analyzed its profitability, she discovered *half* her projects lost money or barely broke even. Without an accurate reading of her costs, Paine was misquoting projects. To price profitably, she now considers:

- **How much time are we spending?** Paine asked her 15 employees to keep detailed time sheets. The time sheets would tell her whether the company was spending more time on nonbillable tasks than anticipated.
- **What are my future costs?** Clients would put in requests for quotes on projects six months or more in advance. During that time employees might get a raise, rendering the price quote unprofitable. So the company had to improve its budget forecasting.
- **What's my billing rate?** There are different ways to bill customers profitably. Bob Peabody, a Newport, R.I., consultant who helped Paine rework her pricing structure, advised her to look at comparable industry statistics for sales and the cost of direct labor (labor that produces sales) to compute a markup factor—the amount she needs to charge to cover costs and make a desirable profit. Paine now uses the markup factor, derived by dividing the cost of direct labor into sales, to compute her billing rate. If on average $40,000 worth of direct-labor costs produces $100,000 in sales, for example, the markup factor would be 2.5. Paine can then multiply projected billable hours by 2.5 to arrive at a price for a project.

"The moment you make a mistake in pricing, you're eating into your reputation or your profits," Paine says. —*S. G.*

To analyze time spent on projects, Katharine Paine uses Timeslips time-billing software ($299.95 for DOS or Macintosh; 800-338-5314; in Massachusetts, 508-768-6100). Consult Gale Research's *Encyclopedia of Associations* at your library for trade associations that collect sales, labor, and overhead statistics.

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PHOTOGRAPH: JOHN SOARES

TRAINING

Getting New Recruits on Track

SUPPOSE YOUR COMPANY IS small enough that an official orientation program for new hires seems too expensive, yet large enough that fresh employees can get lost. Try an approach like the one used by Infincom, a Phoenix-area office-equipment distributor. Mike Koether, Infincom's president, assigns every new employee the same task: seek out and have a one-to-one discussion with each of the top managers in the company within the first five days on the job.

The recruits get a firsthand account of what will be expected of them and each manager's role in the company. The managers can assess the skills and resources being brought into the company. Most important, everyone gets to make the kind of personal connection that begets a strong sense of responsibility.

"We think the first 90 days of the employment relationship is the most critical time and establishes the entire foundation for the future," explains Koether. By taking great pains to see that new employees understand the company and their role in it, Koether keeps turnover and firing low.

The orientation assignment also serves as an early-warning system for wayward employees. If someone doesn't have the initiative to carry it out, says Koether, "we know that recruit is going to have a problem." The employee's manager maps out a 90-day action plan to help the employee understand what it will take to succeed. —*E. E. S.*

WORK FORCE

Affordable Wellness Programs

THE OUNCE-OF-PREVENTION approach to containing health-insurance costs has always seemed like a luxury only well-heeled companies could afford. High-tech exercise rooms, running tracks, and locker rooms are almost nonexistent among small companies. Yet it's those companies that stand to gain the most from promoting healthful habits.

"One big medical claim can just destroy the premium structure of a small company," says Bill Kizer, founder of Wellness Councils of America (WELCOA), an Omaha organizer of regional health-promotion councils.

The bitter irony is that a wellness program doesn't have to be costly. Gene Bedient, owner of Bedient Pipe Organ, in Lincoln, Nebr., created his own. He'd always believed in regular exercise and good eating habits. But not all of his 12 employees did. "In any group of people you'll have a certain percentage that just don't take care of themselves," he says.

Drawing on his own thoughts, Bedient wrote a booklet on staying well for his employees. Under three broad categories of physical, mental, and financial health, he covered nutrition, drinking, exercise, sleep, stress, family problems, retirement savings, and money management, as well as other topics.

He concluded the treatise with an incentive program: he pays employees for every healthful task they execute each month. For example, if you exercised three times a week during the month, that's worth $7. If you did not smoke, you collect $3. A real angel in this program could collect more than $300 a year. Furthermore, workers who have perfect attendance throughout the year receive an extra $300.

Bedient is currently paying out two-thirds of what he'd pay if all employees were model health citizens. Total cost to date: $2,300.

Bedient's employees have been eager participants, in part because the company has also joined a community wellness council (see "Creating a Wellness Program," below) that provides assessment and educational services for only $50 a year.

The payoff will be hard to assess until two or three years have passed. Large companies, which have more experience with wellness programs, report powerful results. In 1989 the Scoular Grain Co., in Omaha, for example, saved $1,500 per employee in total health-care costs as a result of a program.

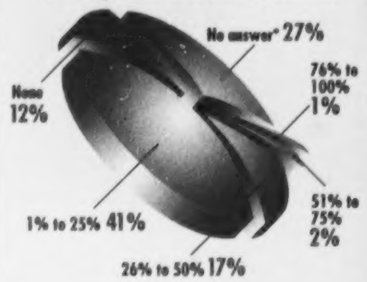
But Bedient isn't impatient about reaping such benefits. "In the long range, it will pay off. If your approach is simply that it's going to save you a lot of money, employees will sense that and be skeptical," he warns. For $2 you can get a copy of Bedient's booklet on staying well, complete with his wellness incentive plan. Call 402-470-3675, or fax to 402-470-3676. —*E. E. S.*

BENCHMARK

Health-Care-Cost Headaches

Health-insurance premiums for small companies increased by an average of 23% during the past year, according to National Small Business United. Most increases ranged from 1% to 25%, but 17% of the surveyed companies reported increases between 26% and 50%. No wonder health-insurance costs and availability were cited as the most important problems the small companies faced.

Percentage Increase in Health Premiums



*NSBU believes respondents who didn't answer do not provide health insurance for their employees.

Source: 1991 National Small Business United Member Survey, Washington, D.C.

RESOURCE

CREATING A WELLNESS PROGRAM

To get started on your own health-promotion program (see "Affordable Wellness Programs," above), contact WELCOA (402-444-1711), an Omaha nonprofit organization of wellness councils. Ask for the cost-benefit brochure ($1), which will help you figure out if a wellness program is worth your while. *Well Now* ($10) is a manager's guide to health promotion. If you decide to go ahead with a program, *Healthy, Wealthy, and Wise* ($25) is jam-packed with information. It includes formulas for analyzing your company's health-care costs, questionnaires for determining your greatest health needs, and a detailed audit of what your program will cost.

You may also want to find out if you're located near one of WELCOA's 30 wellness councils. Membership costs of roughly $2.50 per employee per year will buy you participation in a host of training activities. —*E. E. S.*

CHART: ROSS CULBERT LAVERY & RUSSMANN INC., NEW YORK

THE AMERICAN DREAM

BUSINESS FOR SALE—VINTAGE NEW ENGLAND DINER

THE BUSINESS A well-established 50-year-old, 2,000-square-foot diner in a historic community (population 38,000) on Boston's North Shore. Diner seats 50 (13 at the counter, 37 in booths); serves breakfast, lunch, and dinner Monday through Friday, 5:30 a.m. to 7:45 p.m.; and is open half-days on weekends. Jukeboxes in booths generate 0.1% of revenues. An often-photographed landmark, the diner has been owned and operated by the same family for 46 years—and is on the market because the family has run out of members who want to operate it.

FINANCIAL SUMMARY

	1990	1991	1992*
Gross revenues	$294,000	$266,000	$300,000
Recast earnings before interest, taxes, depreciation, and owner compensation	$14,000	$33,000	$39,000

*projected

PRICE $175,000

OUTLOOK Diners are hot. According to restaurant-industry types, the chic and pretentious 1980s have given way to the casual, value-conscious 1990s. Add the backlash against techno-foods (fake fats, fake sugars, fake meal portions), and it would appear diners are in position A. This diner boasts a strong repeat clientele, including one customer who's been coming daily for the past 50 years. The diner's cost of goods sold, currently running at 43% of revenues, needs to come down; the industry average is 30%. But its net margins, before owner compensation, top the norm.

PRICE RATIONALE The seller values the business at $130,000 and the diner itself at $45,000, numbers experts deem fair. Though valuation formulas for diners—essentially antiques with sentimental value—vary, aficionados suggest five times earnings is appropriate for this one. The question is, what are earnings here? Seller would be happy to stay on in his current role as short-order cook, but paying him could cut the heart out of profits.

PROS A Sterling Streamliner, this is the Porsche of the breed. Plus there's opportunity to grow the business by serving Real Food to Real People deeper into the dinner hours—when margins are higher on favorites like the gravy-slathered hot-turkey sandwich or the fried-seafood plate.

CONS This may be the equivalent of buying a job. Short-order cooking can be fun, but are you ready to do it every day?

—Alessandra Bianchi

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to the Boston Restaurant Group, 508-887-9895.

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PLUS: THE RESPONSE TO PAUL HAWKEN'S 'THE ECOLOGY OF COMMERCE'

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THE MAGAZINE FOR GROWING COMPANIES

THE 75 BEST RESOURCES FOR STARTING A COMPANY

INC.'S NEW-BUSINESS SURVIVAL GUIDE

The Best Small-Business Banks in America

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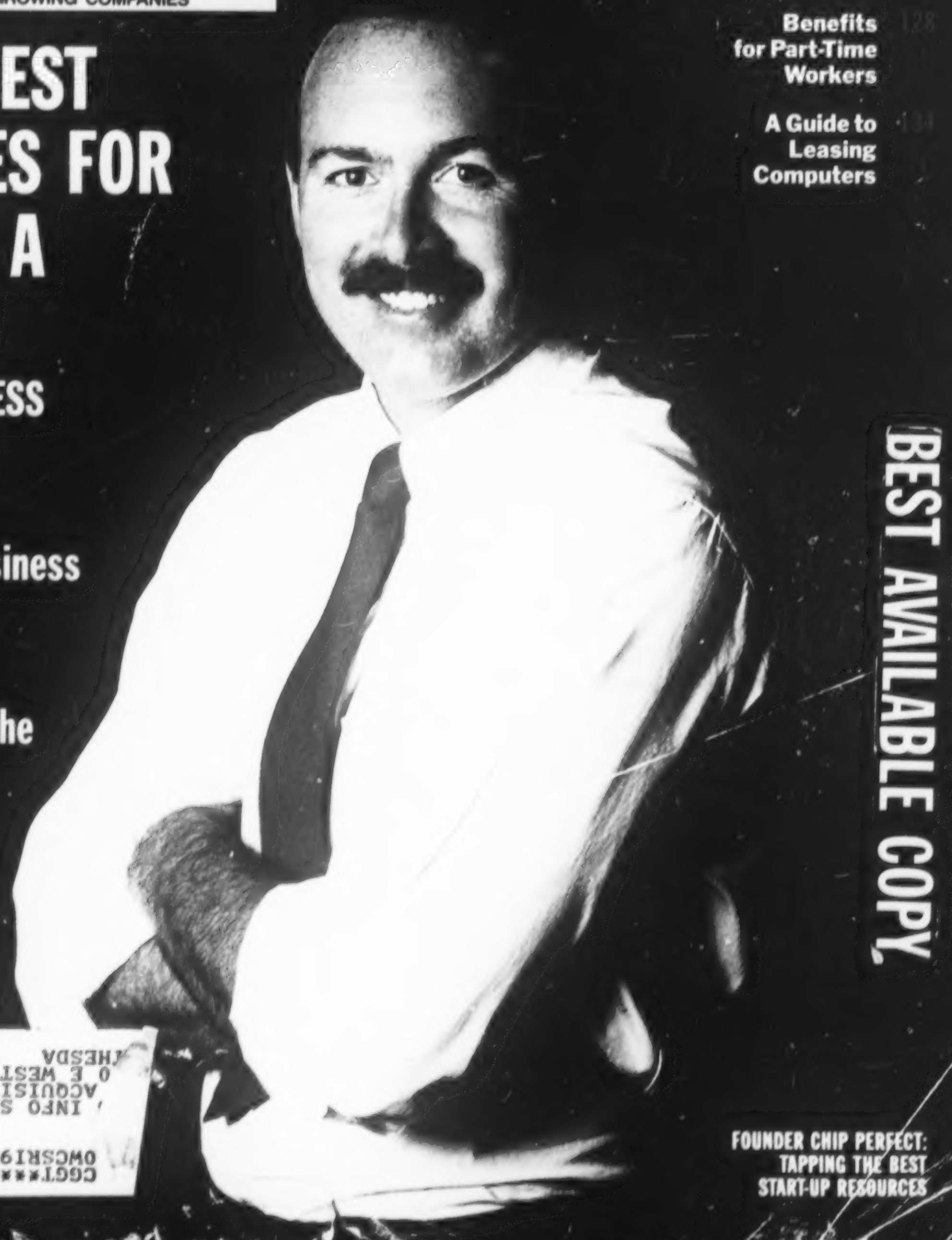

FOUNDER CHIP PERFECT: TAPPING THE BEST START-UP RESOURCES

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FYI

WHAT KEEPS YOU UP AT NIGHT?

The results are in from Ernst & Young's annual survey of past recipients of Entrepreneur of the Year Awards, who were asked to rate the importance of 35 "core business issues" on a scale of one (unimportant) to 10 (extremely important). As it turns out, their top 10 concerns, listed below, aren't much different from those of most other entrepreneurs, with the possible exception of number one. (The survey was sent to about 1,100 companies, of which 259 responded. The rankings are based on the percentage of respondents giving the issue a rating of 8, 9, or 10.)

1. **Retaining key personnel (73%)**
2. **Enhancing customer service (71%)**
3. **Improving quality (71%)**
4. **Gaining greater market penetration (70%)**
5. **Controlling health-care costs (63%)**
6. **Getting useful, timely financial information (56%)**
7. **Managing cash flow (56%)**
8. **Growing without loss of control (53%)**
9. **Building personal wealth (52%)**
10. **Recruiting key personnel (51%)**

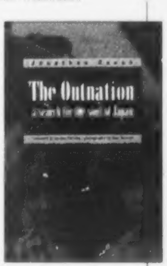
As for the least pressing concerns, let's just say no one will ever confuse this group of EOY alumni with the Sierra Club. Environmental issues ranked near the bottom of the list (number 27), right down there with international expansion (number 24), succession planning (number 25), downsizing (number 33), and inflation (number 35).

A GOOD WORD ABOUT PROFIT

Far be it from me to quibble with anyone who wants to invest half a billion dollars in a philanthropic venture, particularly one geared toward supporting entrepreneurs and providing entrepreneurial training for children from kindergarten through grade 12. That's precisely what Ewing M. Kauffman plans to do with his new Center for Entrepreneurial Leadership, and more power to him. He certainly knows entrepreneurship, having founded and built Marion Laboratories, the Kansas City–based pharmaceutical company that merged with Merrell Dow Pharmaceuticals in 1990.

So I am perplexed about why Kauffman's center seems so reluctant to support for-profits that have the same worthy mission—as if profit might taint their efforts. That notion persists in some quarters, despite the growing number of socially committed entrepreneurs starting businesses not because they want to get rich but because they seek the discipline and credibility that come from operating profitably in a competitive market. Still, you'd think a center for business education would be the last place to find people who regard profit as unsavory. To see the potential social benefits of profit, after all, they need look no further than the source of their funds.

SUMMER READING



The Outnation, by Jonathan Rauch (Harvard Business School Press, 1992). I could go on and on about the virtues of this simple, unpretentious, elegantly written, and beautifully observed book about Japan. Among other things, it explains why mindless criticism of Japan's trade deficit with the United States could produce a result *opposite* to the one intended by critics—that is, greater centralization of the Japanese economy and a strengthening of the bureaucracy that is the primary obstacle to increased political and economic competition.

But I was most impressed—and disturbed—by what the book revealed about our own culture: "[T]he United States is blessed with what are probably the most adaptable and responsive social institutions in the world. In particular, America is blessed with a political system that was capable of removing a malfeasant president from office peacefully and a scientific system that still beats the competition hollow. Yet I worry, because America's problems today are moral rather than institutional, and moral problems are the hardest kind to fix. Japan's problems are the other way around. I believe I can tell you ways to make the Japanese political system work better; but if you ask me how to make American teenagers care more about studying and less about showing off their Corvettes, I can only shake my head dumbly."

Twenty-First-Century Management, by Hesh Kestin (Atlantic Monthly Press, 1992). This is a terrific book about an inspiring company, one of the few that offer genuine insights into what business in the 21st century might look like. The book is everything a business book should be: smart, witty, informative, entertaining, thought provoking, and *short.* The publisher achieved this commendable result by matching up a seasoned reporter with a worthy subject, Computer Associates (CA), a giant software company whose success has defied explanation—until now, at any rate.

At the heart of founder Charles Wang's philosophy is what he refers to as "reorg," a process of endless reinvention. In the early days Wang would totally reorganize the company as often as four times a year, and he still does so no less than once a year. "The very idea flies in the face of both received business wisdom and what is thought to be common sense," writes Kestin. "A system that works should be allowed to keep working, no? Yes, and the system that works at CA is reorganization. Its stability is in change." Wang's willful chaos is based on the simple idea that the company's most valuable assets are its people, who should be deployed so as to help CA achieve its goals. Since the world is in a state of constant flux, CA's goals must constantly change as well, and so too must the role of its people. Hence, reorganization.

I suspect the reorg principle will hold particular appeal for *Inc.* readers, for two reasons. First, it can be employed almost anywhere, regardless of scale. At the same time, reorg is based on the same imperative that a new business is: wealth creation, not asset protection. And it is only in creating new wealth, rather than protecting what we have, that we will be able to prosper in the next century. ❑

ILLUSTRATION: MARTY BRAUN

RESULTS FROM
APRIL

The Inc. FaxPoll™

ARE HEALTH-CARE COSTS MAKING YOU SICK?

The diagnosis: Our health-care system is in critical condition.

The prognosis: Unless strong measures are taken, it's good-bye, small business.

56%

YES

ARE YOUR CURRENT HEALTH-CARE COSTS THREATENING YOUR BUSINESS?

No

44%

Companies of all sizes are seeing their health-care costs rise significantly. Forty percent of our respondents have experienced increases of more than 50% over the past three years—a trend most find threatening. Small employers in particular feel "at risk of becoming uninsurable, with no alternative at any price."

Is there anything you can do to stem the rise in costs? Increasing your deductible, the most frequently tried strategy, diverts part of the financial burden to the employees and cuts down on "frivolous visits." Requiring employee contributions allows businesses to "provide the same coverage but keep costs down." But both strategies can make it "harder to attract new employees and retain old ones." Switching carriers is another favored tactic: 21% of you have switched twice or more in the past five years. Some of you change companies every time your premiums increase, "which is almost annually." For some, this strategy isn't an option: "We can't change coverage because of health problems. We're trapped." Switching to a preferred-provider organization "ensures reasonable fees at the doctor's office," respondents told us. Reducing coverage can "lower out-of-pocket expenses, with benefits that are still good." But others said that might yield "slightly lower costs but vastly lower care." Cafeteria-style benefits "allow best choice and most effective use of companies' and employees' money," and the employees feel involved in the decision. Other programs that had their advocates include wellness programs and preemployment health screening. ("We hire healthier people," which "prevents problems.") Forty-six percent of those who tried self-insurance found it to be their most effective measure. Still, some of you said nothing seems to work: "We shop prices, change carriers, and lose time and money without reducing the cost of coverage."

HOW MUCH HAVE YOUR HEALTH-INSURANCE COSTS INCREASED OVER THE PAST THREE YEARS?

Not at all	1%
Less than 10%	4%
10% to 50%	52%
51% to 100%	28%
More than 100%	12%
Decreased	2%

WHO IS *MOST* RESPONSIBLE FOR THE INCREASING COST OF HEALTH INSURANCE?

Lawyers	24%
Doctors	20%
Insurance companies	19%
Combination of everyone	13%
Hospital administrators	11%
Federal government	10%
Employees	4%

WHICH OF THE FOLLOWING COST-CONTAINMENT MEASURES HAVE YOU TRIED? WHICH HAS BEEN THE MOST EFFECTIVE?

	Have tried	Most effective *
Increased deductible	67%	20%
Switched carriers	57%	22%
Required employees to pay a portion of the cost	46%	25%
Reduced coverage	43%	12%
Switched to or added HMO/PPO	31%	27%
Instituted second opinion/admission precertification	21%	2%
Became self-insured	14%	46%
Switched to cafeteria-style plan	13%	18%
Joined a larger group plan	11%	32%
Initiated wellness programs	11%	**
Instituted preemployment screening	11%	**
Ceased to provide health insurance	7%	**
Initiated internal claims analysis	3%	**

When pressed for a single cause, readers not-so-reluctantly pointed their fingers at the lawyers: "We are a litigation-crazed society fueled by attorneys." The threat of huge awards in malpractice suits forces doctors to "practice defensive medicine" characterized by "more expensive malpractice insurance, and unnecessary tests." We all wind up paying for those policies and settlements in the end: "Doctors and hospitals pass the costs along. It's a vicious circle."

Some blamed insurance companies, with their "astronomical profits and no cost containment." Others accused hospital administrators of overcharging to "cover the costs of indigent patients."

When we asked who is in the best position to do something about the problem, your answer was unequivocal: it's time for the government to intervene. Many urged a cap on doctors' pay or hospital costs. Others suggested limits on malpractice-suit awards, tort reform, a cap on lawyers' fees to reduce "their motivation to sue," and legislation to control medical-billing fraud. Several called for a national health-care plan, while others vociferously objected to the notion, saying, "The cost of such a program would translate into excessive taxes, and the result would be disastrous." Another said, "We are paying dearly for health care now; surely we can afford a national health plan that is controlled and fair." *—Christopher Caggiano*

THE INC. FAXPOLL IS SPONSORED BY XEROX

Note: Multiple responses account for total percentages above 100%;
* Percentage of those who tried measure who found it to be their most effective measure; ** Less than 2%

DISTRIBUTION

Looking for Reps in All the Right Places

HERE YOU ARE WITH A BREAKTHROUGH PRODUCT IN AN INdustry that hasn't seen any innovation in a decade. The world should be beating a path to your door, right? Well, Lucinda Seigel, president of Dark-to-Light (DTL)—a manufacturer of energy-saving streetlight controls in Pembroke, Mass.—learned that the future of her young company depended on *her* ability to beat a path to the right independent sales reps.

The Manufacturers' Agents National Association (714-859-4040) publishes a useful four-page report titled "Prescreening Prospective Principals and Agents: Some Guidelines" (report 534, $3.50), outlining questions company owners should ask prospective sales reps and those sales reps should ask company owners.

In 1991 DTL made the transition from shipping test samples to selling just under $1 million in products. The company has 60 independent reps from 18 organizations across the country. Seigel's recommendations for finding and evaluating sales reps:

Ask potential customers. Even before it had any sales to speak of, DTL depended on the generosity of would-be customers (utilities) to pass along the names of reps they respected. To get the leads, Seigel attended industry seminars, where she met engineers and marketing people from utilities around the nation.

Target your search. Seigel recruited about half her reps from the ranks of the specialized Electrical Equipment Representatives Association (EERA), in Kansas City, Mo., which she learned about from one of the first sales reps she interviewed. In the EERA she found an exclusive club of 150 or so top rep agencies. The EERA's directory told Seigel which rep groups serviced which territories and product lines.

Interview rep agencies in person. In face-to-face talks, most agencies, each of which might represent a dozen or more companies, are forthcoming about whether they can take new lines to market, Seigel says. She also learned to be wary of reps *too* ready to take on her line, because she knows her product is a tough sell. And she always inquires about a rep company's future. If the founders retire, is there enough experience in the ranks? "You can't go with an agency that hasn't thought out its succession strategy."

Offer attractive incentives. Seigel uses independent reps because that's the standard in her industry. But DTL's healthy margins allow her to put more money into training reps and to pay above-average commissions.

Widen your network. Through the contacts she made at industry conferences, she also found out about a group sponsored by the Environmental Protection Agency, Green Lights, which is charged with getting manufacturers to slash energy used for lighting. DTL joined the group and gained access to 25 utilities that could lend an ear and pass on names. A few of the utilities even became customers. *—S. G.*

RESOURCES

Export Experts Close to Home

IF YOU'RE TRYING TO MAKE sense of international cultural and business mores (see "Will Your Product 'Travel' Overseas?" page 118), far-flung experts aren't the only ones who can help you.

- **State export offices** (check with your state economic-development office) help small businesses analyze overseas prospects. They can guide you to market reports prepared by foreign commercial officers. They also publish export guidelines and hold seminars in shipping and licensing.

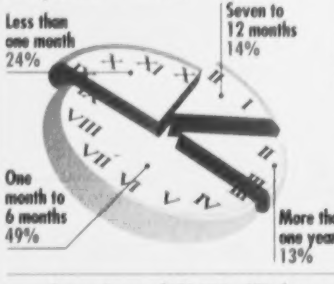
  Many state export offices organize trade delegations to and from other countries. The Rep-Com show in Mexico City, sponsored by the U.S. Department of Commerce (202-377-4231), provides small companies in a variety of industries with a rare chance to meet one-on-one with Mexican agents and distributors. Rep-Com will be held in December 1992 and June 1993.
- **The Commerce Department's National Trade Data Bank,** available through district offices and in some libraries, reportedly contains more than 90,000 documents (including reports from the CIA and the State Department), featuring country-specific overviews of product markets, economic conditions, and best prospects for exporters. For a rundown of federal export programs, call the Trade Information Center at 800-872-8723.
- **Private help**: The AT&T Export Hotline (800-872-9767), a fairly extensive "fax-back" service, is a good place to start to find demographics and industry reports that assess market conditions, competition, and top sales opportunities in a given country. If you're selling a consumer product, call Subsidiary Services International (800-336-4048, fax 401-453-5307), an exporting-consulting firm, for a free brochure on how to qualify overseas distributors. *—S. G.*

BENCHMARK

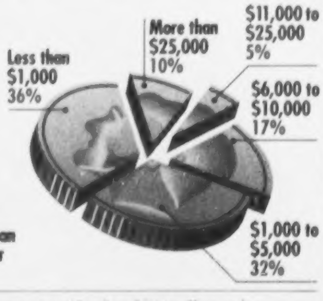
What Do You Spend on Market Research?

Some CEOs take time on market research (see "On-the-Road Research," page 115), but many more spend just a few months gathering information before launching a product. Most CEOs we surveyed spend $5,000 or less on it; they listen to customers and colleagues before consultants.

Time spent on market research before launching most recent new product or service:



Out-of-pocket money spent on the market research:



Source: Survey of 173 CEOs, 57% from companies with sales of $10 million or less, by *Inc.* and The Executive Committee, San Diego, 1992.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

OUTPLACEMENT

Guiding Failed Employees

MOST COMPANIES PREFER TO LET BYGONES BE BYGONES WHEN they fire an employee. Ed Steffan, co-owner of EPS Rehabilitation, a rehabilitation and placement service for injured workers in Tinley Park, Ill., has a radically different point of view. "I've always looked at employees as people who are helping me, not as expendable objects," he explains. When things don't work out, he goes to great lengths to help the employee find a new job.

With only 22 employees, Steffan usually knows within the first 90 days if a new hire is going to make it. If several training attempts to correct deficiencies fail, he tells the worker that the job isn't appropriate and tries to help the employee figure out what to do next. A secretary who's unable to master the medical terminology and personal contact required at EPS, for example, could do very well in a job that requires mostly transcription.

With the employee's job goal set, Steffan often gets the worker's résumé updated and printed in-house and alerts his staff to the employee's new job objective. Because EPS has ongoing relationships with its large corporate customers, it can informally poll those organizations for job openings quickly.

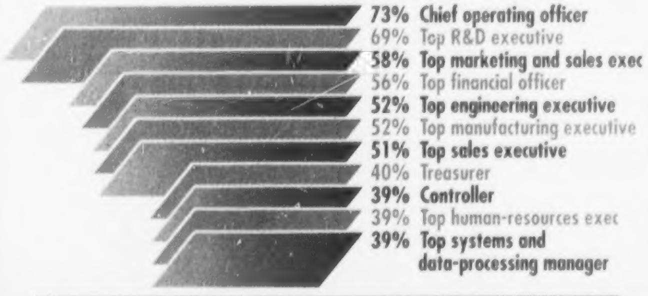
Though some employees leave his company with negative feelings, Steffan estimates that he gives concrete help to 80% to 90% of the 5 or 6 employees who leave each year. "I see real value in this," he asserts. If a former employee goes to a competitor, Steffan figures he stands to benefit by having that worker use EPS as the standard to which he holds his new employer. That employee will always be a walking advertisement for the company. What's more, Steffan's ad hoc outplacement effort scores points with the company's customers because it conveys the caring philosophy that EPS uses in serving injured workers. *—E. E. S.*

BENCHMARK

Top Exec's Paychecks

The outrageously large compensation packages large corporations award top executives have no corollary among midsize companies, according to a recent Ernst & Young survey. Bonuses offered ranged from 17.2% of base salary, for controllers, to 58.6%, for CEOs. After CEOs, who earned an average of $128,206, chief operating officers earned the most in base pay.

1991 Base Salary as a Percentage of CEO's Base Salary



Source: Ernst & Young's 1992 Executive Compensation Middle Market Survey of companies with annual sales of less than $50 million, New York City.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

MOTIVATION

Team-building Techniques

SAY YOU'RE SOLD ON ALL THE current management buzzwords: empowerment, partnership, self-directed teams. You flatten your organization by eliminating middle managers. You create teams with direct customer involvement. And you sit back, waiting for operations to improve at warp speed.

That's when you find out the truth about granting power to employees: a lot of them don't want it. "Some people like to come to work and be told what to do," says Tom Pechacek, general manager of Displaymasters, a designer and builder of trade-show exhibits. Inspired by the restructuring many of his large-company clients were going through and hoping to get closer to those customers, Pechacek put the finishing touches on a new team-oriented organization nearly a year ago.

Although the company, based in Minneapolis, aims to hit $10 million in revenues this year thanks to this change, many of its team members resisted their new roles. The biggest hurdle: getting them to be proactive about problems. Here's a simple exercise that Ann Marie Fasching, leader of Displaymasters' customer-service team, says helped her team members significantly.

First, Fasching had her team members fill out a questionnaire with three questions on it:

1. **Why are we a team?**
2. **What do you expect from your team leader?**
3. **What do you expect from your team members?**

Then the team discussed members' answers. Because all five members held similar jobs, it had made sense to managers to group them as a team, but they hadn't had a say in that decision. Responding to the first question allowed everyone to voice concerns and, essentially, buy into the new orientation.

Responses to the second and third questions enabled Fasching's team to begin establishing new patterns of behavior. For example, team members decided what they should do if they had a complaint about another employee in the company. Under the old framework, the complainer would deposit the problem in his or her boss's lap. In the new system, Fasching's group decided, each person would be responsible for dealing directly with his or her "problem" person. A team leader, such as Fasching, could be called on to mediate but not to rule on the issue.

The exercise was one of the most important elements in helping team members realize that they were responsible for solving their own problems. Since completing it, the team has gone on to tackle stiffer challenges—for example, three of Fasching's team members who sometimes feel "trapped" by their jobs (including the person who answers calls from complaining customers) have embarked on a job-sharing schedule in which they rotate jobs every day. *—E. E. S.*

BORROWING

Why Banks Like ESOPs

TRANSFERRING THE OWNERSHIP OF PART OF YOUR BUSINESS TO employees under an employee stock ownership plan may not be something you've seriously considered lately. But for many companies, especially those looking to reduce their debt service and operating costs, setting up an ESOP can provide several benefits at once. Although advocates for years have touted ESOPs for the way they can make employees more motivated and productive, less attention has been paid to how ESOPs can lower your cost of capital.

There are several financial benefits to setting up an ESOP. To begin with, assuming the ESOP is buying 50% of the stock, you can deduct not just the interest payments on loans to the ESOP but the *principal* as well. (On ordinary business loans, only interest expenses are deductible.) "If you look at the payments over time, this is by far the biggest benefit," says Lawrence Mack, a vice-president with Ameritrust, a Cleveland bank. "It can really help cash flow."

Bankers who have experience with ESOP loans tend to feel positive about them. Over and above the cash-flow advantages, which reduce the risk that a company won't be able to meet its loan payments, there's another attraction: half of the interest a company pays on an ESOP loan is tax deductible to the lender, boosting the potential return on an 8% loan to as high as 12%.

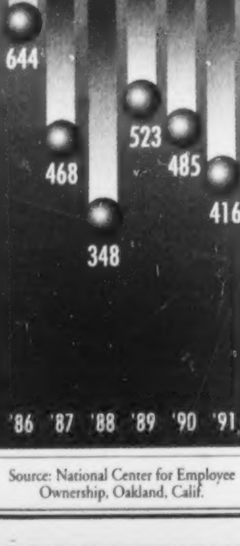
Still, ESOP mavens caution against looking to ESOPs for short-term financial gains. Given all the tax and legal issues, it takes at least several months to set one up. And because of the high legal and accounting costs (we've heard of fees ranging from $10,000 to more than $100,000), ESOPs probably won't make sense for companies with payrolls of less than $500,000. If you're interested in exploring an ESOP, two sources of information are the National Center for Employee Ownership, in Oakland, Calif. (510-272-9461); and the ESOP Association, in Washington, D.C. (202-293-2971). —*B. G. P.*

BENCHMARK

A Slowdown in New ESOPs

The number of employee stock ownership plans, which can provide liquidity for company owners, has more than tripled in the past 15 years. Currently, some 10,000 companies have ESOPs in place, according to the National Center for Employee Ownership. But the growth in new plans has slowed in recent years. According to Corey Rosen, executive director of the NCEO, "A lot of companies don't want to borrow—or can't in the current market." Sellers, he adds, are less keen on selling when business valuations are low.

New ESOPs



Source: National Center for Employee Ownership, Oakland, Calif.

CHART: ROSS CULBERT
LAVERY & RUSSMAN INC., NEW YORK

RESOURCE

The Scoop on SBA-Guaranteed Loans

Last year nearly 20,000 companies across the United States managed to get bank loans guaranteed by the Small Business Administration. The guaranteed loans enable less established borrowers to obtain longer-term financing for real estate and equipment, and provide lenders with an exceptional opportunity to earn a good return with minimal risks.

SBA Lending Made Easy (American Bankers Association, 800-338-0626, 1991, $69) is written for bankers who may not be familiar with the SBA's intricate lending criteria, but it's instructive for would-be borrowers as well. Besides providing information on the SBA's restrictions regarding company size and use of proceeds, it teaches you about the underwriting areas where bankers have some leeway. The text is 60 pages long, but the book contains more than 100 pages of appendix material—everything from addresses and phone numbers for SBA field offices, to sample loan applications and guaranty agreements. —*B. G. P.*

CREDIT

How to Monitor Customers' Payments

FINDING NEW CUSTOMERS IS great, but how can you tell if the people clamoring for your products or services are also prepared to pay you? Lots of companies order reports from credit agencies whenever there's any question. But there are other ways to gather credit information that might provide a more telling indication of whether customers will honor their credit obligations. Here are two:

- **Ask your banker to do a bank-to-bank check.** Many companies ask customers for bank references. But if you try calling those references yourself, you may not get much that's useful. "There's a language bankers use for exchanging information," says Deryl K. Schuster, president of Emergent Business Capital's central division, in Wichita, Kans. "And since bankers are reluctant to offer negative information, you really need to know how to read between the lines." Bankers usually don't charge for making bank-reference calls for customers, but they will charge you if they purchase third-party credit reports or order lien searches.
- **Quiz other credit managers.** Another good source of credit information is other credit managers who may have had direct experience with the customer. As a rule, says Charles Bodenstab, owner of Battery and Tire Warehouse, in St. Paul, Minn., "a credit manager will be very candid with another credit manager—even if they're competitors. They know if they withhold something important, they won't be able to get information when *they* need it."

If you want to network more regularly with people in the credit community, consider joining the National Association of Credit Management (410-740-5560). The NACM, with 60 regional chapters around the country, maintains its own credit database. Depending on where you're located, memberships run between $150 and $250 annually. For additional sums, you can join one of the NACM's industry-specific credit groups. —*B. G. P.*

BENEFITS

Giving Part-Time Workers Benefits

STARBUCKS COFFEE

HOWARD SCHULTZ, THE CEO OF SEATTLE-BASED Starbucks Coffee, believes his business cannot achieve profitable growth *without* providing competitive benefits. Two years ago he began providing all 1,800 employees, including the part-time workers who make up 50% of his retail sales force, with a benefits package that includes stock options, medical and dental insurance, and even a free pound of coffee each week.

Schultz believes that type of comprehensive benefits coverage is not only feasible but ultimately profitable for growing companies of all sizes. Here's how the CEO of the $50-million company responds to the most common objections:

- **Insurance is too expensive to include part-time workers.** "Including part-timers does increase our insurance fees, but you can't just consider that fact in isolation," Schultz emphasizes. "By providing them with insurance, we've helped bring turnover to below 50% in an industry where it typically runs more than 100% annually. Thanks to lower turnover, we've saved more in training costs than we've spent on insurance."
- **Part-timers are too transient to benefit from stock options.** "That's shortsighted," says Schultz. "If you make a part-time worker feel he's an owner—and structure stock options to reward longevity on the job—your part-time workers will become as committed as your full-time workers are." One way Schultz discourages transience is through a combined reward/vesting system in which workers receive new stock options *each* year but gain ownership rights to those options only at a 20%-per-year rate.
- **Part-time workers don't spend enough hours on the job to get interested in their employer's long-term future.** A management-level committee works at educating part-time and full-time workers about the ways their own performance, as well as the company's, will affect the profitability of stock options and other benefits. For example, all employees receive a five-page color brochure, "Partners . . . in Growth," which defines what Schultz calls "bean stock terms" (the way stock options work), illustrates the potential dollar value of options over a 5-to-30-year period, and answers typical questions such as, Do I have to pay cash when I exercise my options?
- **Spend too much on resources and you won't have the cash flow to support growth.** The growth curve of Starbucks proves otherwise. During the past three years, while the company upgraded benefits and started awarding stock options, revenues have grown at an 80% compounded annual rate. Meanwhile, profit margins have increased during each of the last 10 quarters.
- **It's an administrative nightmare to include part-time workers in a full-scale benefits plan.** "I'm the first to admit that these plans are incredibly tough to design," says Schultz. "That's why I spent the money up front—$60,000 to consultants—to make certain that our plan would fit federal guidelines, maximize tax benefits, and at the same time achieve all our internal goals for motivating and rewarding part-time and full-time workers."

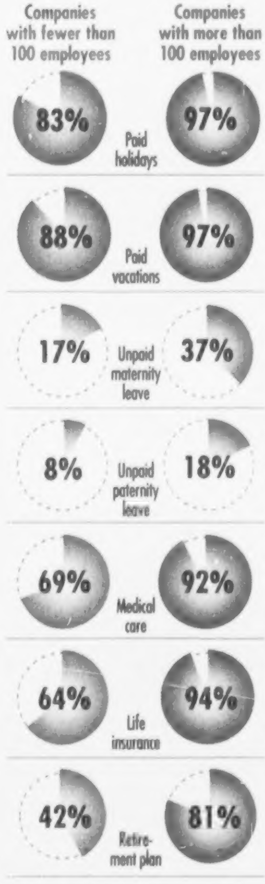
—*J. A. F.*

BENCHMARK

Do Small-Company Benefits Measure Up?

Two Bureau of Labor Statistics surveys indicate that small companies are failing to provide competitive benefits, particularly in such important financial areas as retirement savings and medical insurance. That could mean trouble for growing companies whose success will depend on their ability to compete with larger corporations for the best-skilled workers.

Here's how benefits for full-time workers compare:



Source: Bureau of Labor Statistics' "Employee Benefits in Medium and Large Firms," 1989; and "Employee Benefits in Small, Private Establishments," 1990; Washington, D.C.

RESOURCES

Estate-planning Resources

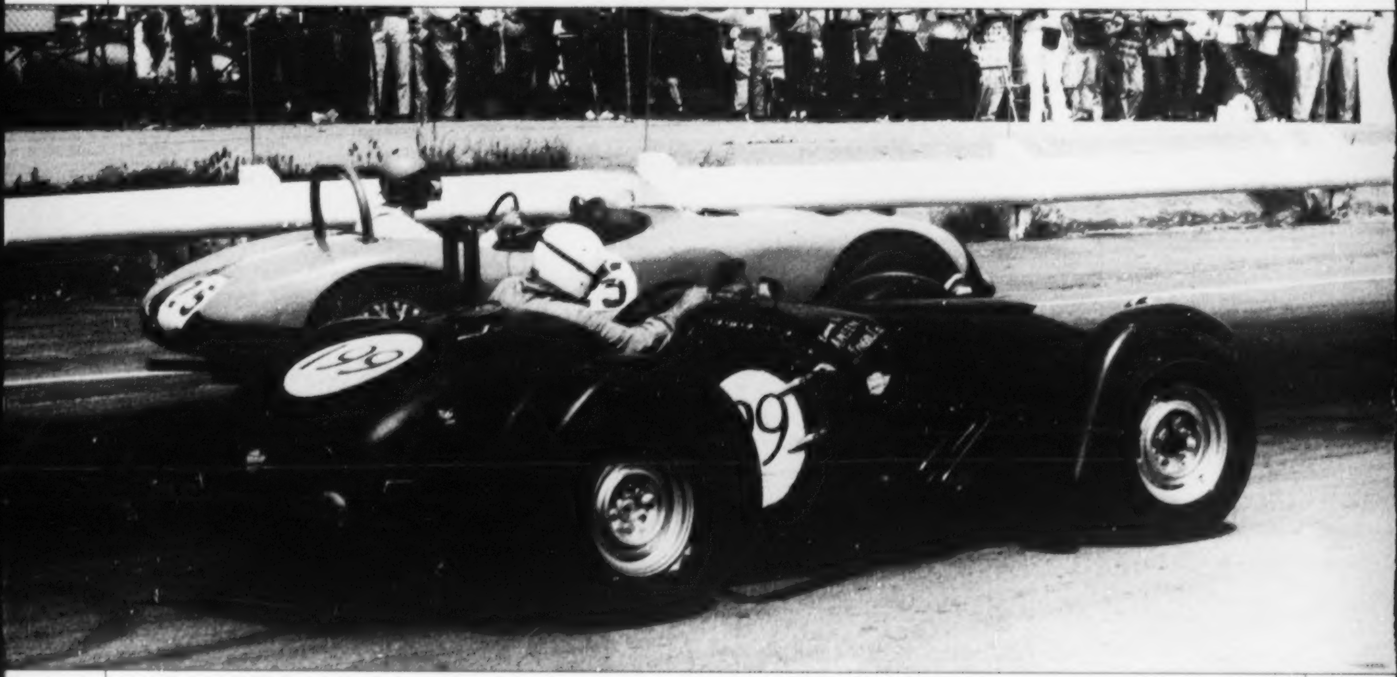
GRANTED, ESTATE PLANNING isn't exactly a subject for the best-seller list. But any business owner who doubts its urgency would do well to curl up one evening with any of these recommended books:

- *Keep Uncle Sam (and Cousin George) from Devouring Your Estate* (Capital Publishing, 800-847-4483, 1992, $19.95), by Stephen M. Rosenberg. Although somewhat lurid in its approach (there's even a dragon on the cover), this 305-page paperback uses breezy prose, case studies, and plenty of graphics to build a strong case for starting estate planning today. This is best suited for people still in the first stages of estate planning, since it's strongest in the basics.
- *The Handbook of Estate Planning* (McGraw-Hill, 800-262-4729, 1991, $39.95), by Robert A. Esperti and Renno L. Peterson, 283 pages, is less fun to read but makes up for it by providing an abundance of in-depth and financially sophisticated planning strategies that make sense in the post-tax-reform U.S. economy. This title is more appropriate for those who are relatively savvy on the subject.
- *Preparing Your Family to Manage Wealth* (Monterey Pacific Institute, 800-247-6553, 1992, $29.95), by Roy O. Williams, 190 pages, is invaluable for the entrepreneur whose focus is not only on minimizing taxes and maximizing inheritance value but on passing a business along to the kids. Sections on how to keep children informed and involved are particularly useful.

—*J. A. F.*

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

THE AMERICAN DREAM



BUSINESS FOR SALE—TEXAS DRAG STRIP

THE BUSINESS A 32-year-old, 10,000-spectator drag-racing track, set in a midsize Texas city—to which it draws fans and contestants from as far as 300 miles away. Sanctioned by the National Hot Rod Association, the drag way typically operates nine months of the year and derives 78% of its revenues from ticket sales and race fees, the remainder coming from concessions, advertising, and sponsorships. The seller—a former world-record-setting racer whose hands-on management has been integral to the track's success—suffered a heart attack last year and wants to retire.

FINANCIAL SUMMARY

	1990	1991	1992*
Gross revenues	$386,000	$275,000	$310,000
Recast earnings before interest, taxes, depreciation, and owner compensation	$205,000	$95,000	$141,000

*projected

PRICE $500,000

OUTLOOK Drag racing—technically, an acceleration contest between two vehicles, from a standing start over a measured distance—is still increasing in participation and spectatorship and remains primarily a mom-and-pop, all-cash business. A former site of the world finals, this track today is one of 42 in the country to host a divisional Winston Drag Racing Series, which is one level below the national professional tour and brings in about half the facility's annual revenues. And the track hosts amateur, community-minded events such as "Race a Cop" contests, for which it receives extensive local TV, radio, and newspaper coverage. All that could add up to a projected 45% profit—more than double what most healthy tracks expect.

PRICE RATIONALE High risk, high reward; that's how most experts describe the drag-strip business. Fat margins and relatively big multiples appear to be the norm for tracks that succeed. Valuations range widely from site to site, depending on such factors as surrounding population density, the number and caliber of events, and venue amenities, but drag-way vets say 7 to 12.5 times earnings would not be out of line for a facility of this vintage and type. This seller is asking just 3.5.

PROS A phenomenal—if, say insiders, hard to believe—profit margin.

CONS Industry types say the skills of the operator are the keys to every drag strip's fate. The current owner's a pro. Looks like the next one had better be, too. —*Alessandra Bianchi*

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Charles Hocker & Associates, 214-458-2727.

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Inc.®

THE MAGAZINE FOR GROWING COMPANIES

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THE BEST PLACES IN AMERICA TO OWN A BUSINESS

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FYI

EARLY RETURNS

With so many business leaders in one place at one time in an election year, we couldn't resist the temptation to conduct a survey of the group's political attitudes. Here are the highlights:

As president, who do you think would best serve and support entrepreneurial businesses?

Ross Perot	67%
George Bush	23%
Bill Clinton	5%
Others	5%

If the election were held today, whom would you vote for?

Ross Perot	43%
George Bush	40%
Bill Clinton	9%
Others	8%

Do you support the Brady Bill, restricting the purchase of handguns?

Yes	75%
No	19%
Don't know	6%

Do you believe abortion should be— (Check only one)

Legal	61%
Restricted	23%
Illegal	12%
Don't know	3%

On a scale of 1 to 5, to what extent do you believe business owners should take responsibility for the environment? (Circle one)

1 Not at all	—
2	1%
3 Somewhat	13%
4	49%
5 To a very large extent	37%

Would you and your company be willing to spend more money to ensure environmental quality?

Yes	73%
No	6%
Don't know	21%

So, as a group, are Inc. *500 CEOs conservative or liberal, or do we need some new definitions? You tell me.*

◗ At a seminar on planning, Michel Robert of Decision Process International, of Westport, Conn., observed that a company could often get by without a strategic vision, provided it was operationally competent. He called this the Christopher Columbus School of Management. "When Columbus left, he didn't know where he was going. When he got there, he didn't know where he was. When he got back, he didn't know where he had been. But he got there and back four times in 10 years without getting lost."

◗ We didn't hear nearly as much grumbling about the economy this year as last year, when conference attendees warned us that the recession was much deeper than the Bush administration was letting on. (As it turned out, of course, they were right.) While the mood in Des Moines was not exactly bullish, CEOs seemed more upset about a growing wave of government intervention in the day-to-day conduct of their businesses. Of particular concern were the potential effects of new laws that attempt to redress social problems by regulating the workplace. "With the passage of the Americans with Disabilities Act and the Civil Rights Act of 1991," said one CEO, "legislators with good intentions have created a nightmare for small companies. Every company at this year's conference will have at least one nasty suit pending by the time next year's conference rolls around, thanks to these two pieces of legislation alone."

DEFINITION OF A BOOTSTRAPPER

Someone who throws nickels around as if they were manhole covers.

—Courtesy of Max Carey, CEO of Corporate Resource Development, in Atlanta

"The mechanics of running a business are really not very complicated when you get right down to the essentials. You have to make some stuff and sell it to somebody for more than it cost you. That's about all there is to it, except for a few million other details."

—From a presentation on strategic alliances by Steve Snyder of Software Partners/32

MARKETING SLOGANS YOU THOUGHT WOULD NEVER WORK

"Trust us, we're in sales." (Computer Graphics Distributing, in Gaithersburg, Md., #144 on the 1991 *Inc.* 500)

◗ Baseball Hall of Famer and native Iowan Bob Feller held his own seminar on compensation prior to throwing out the first pitch in the Big Game. Bad compensation practices, he said as he autographed baseballs for attendees, have screwed up our national pastime. "The problem is that no one is willing to get paid for performance anymore. They want to make millions if they have a great year, but they aren't willing to give anything back if they have a terrible one." We could see the heads of CEOs everywhere nodding in agreement.

◗ Why you won't see Dick Weigen, founder and CEO of Corporate Book Resources (#275 on the 1989 *Inc.* 500), hanging around any workshops on managing people: his is the only company in the 10-year history of the *Inc.* 500 to have no employees.

HOW TO HANDLE LIFE AFTER YOUR COMPANY

ERIC KRISS: "I set up a network of CEOs I meet with regularly to help me deal with issues associated with selling my business." **DON BURR:** "Yeah, I'm familiar with those types of support groups. I've been kicked out of six of them."

◗ Judging by the registration list, it appears that the most popular name for a young, growing company these days is *Phoenix*. As ancient legend has it, the phoenix was an eagle that nested in the top of a palm tree. Every 500 years the sun would set the nest aflame, and an even more powerful bird would rise from the ashes. Of course, product life cycles were a lot longer back then. ❏

RESULTS FROM
MAY

The Inc. FaxPoll™

WHAT ARE YOU DOING ABOUT SEXUAL HARASSMENT?

Surprisingly little, it seems.

IS SEXUAL HARASSMENT A MAJOR PROBLEM IN THIS COUNTRY?	
YES	59%
No	41%

Most respondents think sexual harassment is a major problem in this country. Not surprisingly, women (82%) were more likely than men (43%) to say it was a problem. (Overall, 60% of respondents were men and 40% were women.) Attitudes also varied with age and position in the company. Younger respondents and those further down the ladder were more likely to say it was a problem. Most do not feel harassment is a significant issue in their company. Only 42% categorize it as even a minor problem. Some of you accused us of making a mountain out of a molehill. "Don't we have something more important to worry about?" one asked. "Women should not dress up as if they are trying to get everyone's attention," complained another. Others were more sympathetic: "As men, we can't even imagine the constant insinuations that surround women in the workplace."

Large companies (with more than 100 employees, 83%) were more likely than small companies (6 to 10 employees, 25%) to have a policy. They are also more likely to have been sued. And 50% of those that were sued had to pay damages, in some cases more than $100,000. But does that mean small companies don't need a policy? More than a third of you haven't even thought about it. Some have an it-can't-happen-here attitude: "We work so hard that sexual harassment is impossible." And there are those who feel their corporate culture precludes the possibility: "We respect one another enough that this will not be a problem." Others feel immune: "As a woman, I will not tolerate harassment."

Still, regardless of your company size, culture, or male/female ratio, you can and should prevent problems by letting everyone know with a specific policy exactly what's acceptable and what isn't—and even that is no guarantee. One respondent says his company's policy is "laughed at, unless you raise hell and hire a top-gun lawyer."

—*Christopher Caggiano*

HOW EXTENSIVE A PROBLEM IS SEXUAL HARASSMENT IN YOUR COMPANY?	
Not at all a problem	58%
Minor problem	30%
Significant problem	10%
Major problem	2%

DOES YOUR COMPANY HAVE A SEXUAL-HARASSMENT POLICY?	
Yes, we have a specific policy	45%
No, we haven't even thought about it	34%
No, we're just starting to think about it	17%
No, but we're writing a policy	5%

IF YES, WHICH OF THE FOLLOWING BEST CHARACTERIZE YOUR POLICY?	
Promptly investigate every complaint	24%
Have held meetings to discuss it	22%
Take appropriate action swiftly	22%
Haven't publicized it well	10%
Designated ombudsman to receive complaints	9%
Conduct ongoing educational sessions	6%

You may feel that in a small company you can keep an eye on everything and stop any problems in their tracks. But do you know harassment when you see it? When this poll appeared, we printed these two scenarios, which are based on actual court cases, and asked you to tell us whether you thought they constituted sexual harassment:

A. *A male mechanic is assigned to provide on-the-job training for a female mechanic. Although friendly, he asks her out for drinks after work and propositions her. He winks at her and suggests she give him a rubdown. She asks for work advice, and while he does give it, he often asks, "What will I get for it?" Another mechanic slaps her on the buttocks, and a third suggests that he thinks she must moan and groan while having sex.*

Yes, this is harassment	98%	No, this isn't harassment	2%

Virtually everybody thought this was harassment. The court, however, did not. The advice was not withheld from the woman because of her refusal to "give something" in return. There was no indication that any of the offensive conduct was repeated or relentless. The courts found that the situation, while annoying, was not harassment. Note that this case was decided in 1986. More recently, the focus has been on what the alleged victim felt in the situation, not what the alleged harasser intended.

B. *A female lawyer works at an office where consensual sex between certain male lawyers and female subordinates is a matter of public knowledge. She claims that the sexual relationships in the office result in the subordinates' career advancement and create a hostile work environment that undermines her performance. Two overtures have been directed at her personally: a repeated offer of a ride home by one lawyer; being kissed at a party by another. But neither involved a stated or implied quid pro quo, and neither was the cause of her complaint.*

Yes, this is harassment	48%	No, this isn't harassment	52%

The court said that when employees who submit to sexual advances get preferential treatment, and it's a matter of public knowledge, that is harassment. The Equal Employment Opportunity Commission says harassment comprises "unreasonably interfering with an individual's work performance or creating an intimidating, hostile, or offensive working environment."

Note: Multiple responses account for total percentages above 100%.

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LETTERS

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Inc.
HOW TO FINANCE ANYTHING
FROM NEW BUSINESSES TO NEW PRODUCTS – 26 WAYS TO TAP INTO HIDDEN SOURCES OF CASH – AN INC. USER'S HANDBOOK
PLUS: THE ANATOMY OF A START-UP · GOOD FORM · THE ECOLOGY OF COMMERCE, BY PAUL HAWKEN

HOW TO FINANCE ANYTHING

In April's cover story, Bruce G. Posner cataloged some hidden sources of cash for the 1990s ("How to Finance Anything"). As Posner wrote, the list was not meant to be exhaustive but was intended to help readers explore the range of possibilities. Here are some more worth exploring:

You did not mention a technique known as purchase-order financing, whereby fast-growing companies buying and selling finished goods can finance new business. Not surprisingly, it is unavailable from conventional lending sources such as banks and factors.

In purchase-order financing, vendors of finished goods can take firm, noncancelable orders from creditworthy end-buyers and leverage them to obtain financial guarantees or letters of credit from middlemen. As such, the technique can be used by importers, export traders, and domestic wholesalers. It is more expensive than conventional bank financing is but offers an alternative to giving up orders for lack of financing, or relinquishing control to a venture capitalist.

Michael T. Schlegel
Managing Director
Trading Alliance Corp.
New York City

Many states now have export credit, guarantee, and insurance programs designed to help small and medium-size manufacturers sell their goods abroad. By getting together with their financier and the state program director, many exporters have been able to offer their overseas buyers the deferred-payment terms buyers around the world have come to expect and often demand.

Albert H. Hamilton
Senior Associate
First Washington Associates
Arlington, Va.

There is one borrowing strategy, the skip-payment loan, that I believe should be added to the list. SPLs are effective in leveling cash flow and can be used advantageously by any business at any stage of development. The SPL payback schedule includes skipped payments that have been prenegotiated by the borrower and the lender, usually to reduce anticipated strains on cash flow. Businesses that find SPLs attractive are usually seasonal (e.g., in tourism and construction), but any business or individual can use them.

Richard A. Formato
Attorney
Boylston, Mass.

FATHERS AND SONS

I just read Joshua Hyatt's "Fathers and Sons" [May 1992]. After college, I, too, wrestled with the choice of either entering the family business in a time of need or setting out on my own. I chose the family business but for many years have dreamed of what I could have done on the open market. Now, 10-plus years later, I am sure I made the right choice and couldn't imagine being anywhere else. I was not as insightful as Hyatt in identifying the many levels of my emotional turmoil, but I sure recognized every situation he shared in his article.

Kevin Edgar
Treasurer
Silver Creek Nurseries
Manitowoc, Wis.

I am sitting in a restaurant at 7:30 p.m., working on my part-time business as a marketing consultant despite the fact that I have a full-time, very secure position with my father's company.

I've made many changes in the company and want to make more, but it strains the relationship between me and my father. But I can't bear to stand by and watch the company decline. So, how long do I stay? Do I confront my father on his succession plans? Or do I walk away knowing that it's his business to run the way he wants until he dies?

Name Withheld

GRADING THE AMERICAN DREAM

The American Dream is an excellent feature. But it's time for a box score. Many of the businesses you have featured are asking for more than a buyer could ever get back out of it. How many have actually sold? How many are still on the market? And what did they sell for versus what was being asked?

Lewis Raborn
President
Homes for Sale by Owner Magazine
Dallas

Reporter Alessandra Bianchi has done just that in this month's feature "The American Dream Revisited." So, turn to page 58 and see how they fared.

HOUSE OF CORRECTIONS

We mistakenly reported in May's In the Office in "Mileage-Award Insurance" that TWA had disappeared along with Pan Am and Midway. As of this writing TWA is still very much in business.

Two companies were omitted from the 1992 *Inc.* 100 list of fastest-growing public companies: CIS Technologies Inc., a Tulsa-based provider of health-insurance-reimbursement services with a five-year compound growth rate of 261%; and Mid-American Waste Systems, based in Canal Winchester, Ohio, a provider of nonhazardous-solid-waste-disposal services, with a five-year compound growth rate of 95%.

Please address all correspondence to Inc. *Letters Editor, 38 Commercial Wharf, Boston, MA 02110, or call our editorial commentary line at 800-238-1756. (Messages will be recorded.) Include your name, address, and phone number for verification. Letters must be signed, and all correspondence may be edited for space and style.* ❏

THE 1992 INC. METRO REPORT

THE BEST PLACES IN AMERICA TO OWN A BUSINESS

The truth: There isn't a single best metro area to start and grow new companies, but there's a best place to start *yours* • BY JOHN CASE

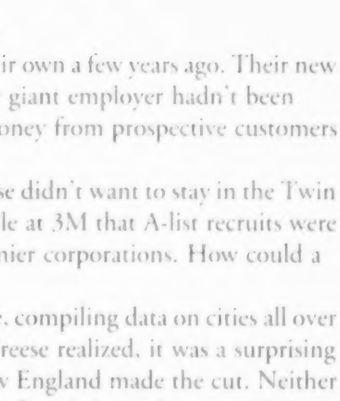
EVER FEEL YOU'RE IN THE WRONG CITY? BOB FREESE DID.

Freese and three colleagues from 3M Corp., in St. Paul, Minn., set out on their own a few years ago. Their new company's product was a given: optical storage devices for computers, a field their giant employer hadn't been interested in. They figured—rightly, as it happened—that they could raise seed money from prospective customers to build a prototype. Even the name, Alphatronix, proved easy to come up with.

But the place, the city that would be the new company's home, was a puzzle. Freese didn't want to stay in the Twin Cities. The cost of doing business in Minnesota was high. And he had learned while at 3M that A-list recruits were reluctant to move to so cold a climate, even for a job with one of the world's premier corporations. How could a start-up attract good people?

Engineers all, Freese and his colleagues began a methodical search for a home base, compiling data on cities all over the United States. The search produced a list of 15 possibilities. By some lights, Freese realized, it was a surprising selection. Despite Alphatronix's high-tech orientation, no city in California or New England made the cut. Neither did population magnets like Las Vegas or Orlando. Instead, the four entrepreneurs found themselves considering locations such as the Kansas City area; Washington, D.C.; and the Raleigh-Durham area of North Carolina. They developed a matrix of five factors and ranked the regions on each. The one scoring best on all five, they decided, would win.

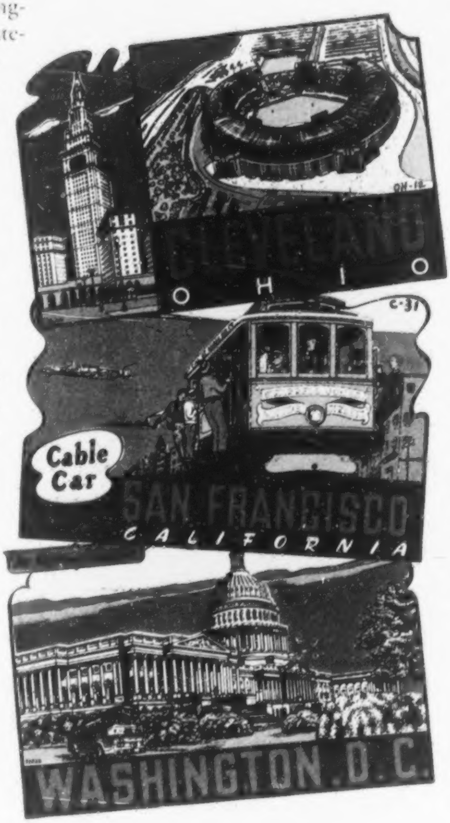
May we have the envelope, please? And may we find out how a less-than-glitzy place like Kansas City was in contention, while Dallas and Boston and San Jose, Calif., were not?



Sure—in a minute. First, by way of prologue, consider how important and how difficult a young company's choice of location can be.

For one thing, business and economic conditions vary dramatically from region to region in the United States. In one recent month the metropolitan unemployment rate was 9.9% in Detroit and 3.3% in Omaha, only a few states away. Cities differ not only by obvious measures (population growth, cost of living) but by subtler ones as well (the average restaurant in Orlando sells 33% more than its counterpart in nearby Tampa/St.Petersburg and 55% more than an eatery in Detroit). "There's really no national economy," says Mitchell Horowitz of the Corporation for Enterprise Development, a Washington, D.C., organization that tracks state-level trends. "Every state seems to have its own competitive positions and its own strengths and weaknesses." Cities' strengths and weaknesses are even more pronounced; they can make or break a new company.

Trouble is, there's no way of adding up all the virtues and defects into a single good-to-bad scale. Low tax rates? An advantage, so it would seem—but not if low taxes mean lousy public schools. A tight labor market? A sign of a booming economy—but a start-up in a tight labor market may have trouble finding employees. Freese wanted a place with a favorable business climate, just not too favorable. "If a community is offering you extra-special incentives, tax abatements, or whatever, there's usually some reason for it," he explains. "Maybe it has really high unemployment. And maybe that's because it has an uneducated work force."



'If we were located even 50 miles away, I'd be tearing my hair out every day,' says Jack Pierson of Preco Industries. 'Here, we get instant support.'

To be sure, the Alphatronix story is unusual. Most entrepreneurs start their businesses where they live and rarely even consider anywhere else. But even homegrown company builders need a working knowledge of business geography. Maybe you plan on franchising your young company or expanding into another region. Maybe your start-up has competitors in other cities who don't face the same costs and constraints you do. Whenever the location issue crops up—and it will—you'll find yourself in a position similar to Freese's, figuring out what kind of city makes sense for your particular business.

At that point, you'll have to throw out preconceptions and prejudices about what various cities have to offer entrepreneurs. Some enjoy brighter prospects than others. Some provide better combinations of business inputs—access to customers, suppliers, employees, money—than others. Maybe most important, some have learned how to help young companies in ways that spell the difference between success and failure. Growth, it turns out, is not only where you find it, but where you make it.

THE WEALTH OF CITIES

IF THEY WERE SETTING OUT AFRESH, most entrepreneurs would choose to build their businesses in robust local economies, regions that thrive in upturns and hold their own in recessions. What makes for such economic health? During the 1980s, the key ingredient seemed to be a swelling population. Midsize Sunbelt cities, fed by massive influxes of immigrants, regularly topped the charts on indicators such as job growth and business starts. For a while, they even seemed to be skipping the current slowdown.

Today some of those booms have gone bust. Between 1988 and 1990, according to data compiled by *Inc.* from the Bureau of Labor Statistics and other sources, the Greenville-Spartanburg region of South Carolina ranked fourth in the nation in job growth. In the past two years its rank has dropped to 109th. That's a story repeated elsewhere in the Southeast (Fort Myers, Fla., plummeted from 10th to 126th) and in parts of California (San Diego fell from 22nd to 120th). One reason, of course, is that growth itself—in the form of construction, real estate, and all the stores and service firms needed to serve a growing population—was among those areas' biggest industries. Then immigration tapered off, partly because of the recession and partly because the huge baby-boom generation was growing older and less mobile. That touched off a downward spiral.

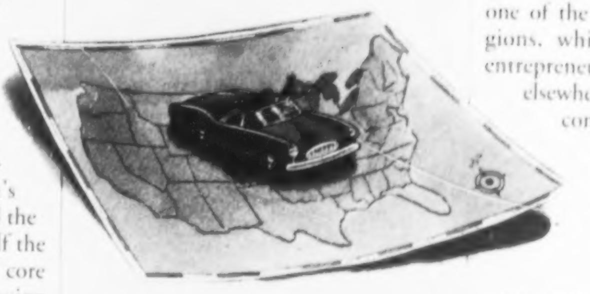
"Rapid growth can sound sexy," says location consultant Dennis Donovan of the Wadley-Donovan Group, in Morristown, N.J., "but it can overtax an area's infrastructure. By itself it isn't necessarily a good thing."

The healthiest cities, by contrast, have evolved distinct economic roles in the emerging global marketplace. (See "Pick Your Place," page 40.) Miami, emulating New York City and Los Angeles, is becoming a center of international trade and finance; it's the hub for the United States' growing business with Latin American nations. Phoenix, capitalizing not just on sunshine and retirees but on a booming electronics sector led by companies such as Motorola and Intel, is an up-and-coming regional capital. (DRI/McGraw Hill projects that Phoenix will be ninth among the top 10 job growers between now and the year 2000; it's the largest city to make the list.)

Midwestern metro areas, home to the manufacturers that are storming back into global markets, are on the upswing as well. "The major exporters in this country are in the Midwest," says Stan Duobinis, senior vice-president with the WEFA Group, an economics-forecasting and consulting firm in Bala Cynwyd, Pa. "The states that touch water may do the shipping, but they don't have the export industries."

The Raleigh-Durham area of North Carolina—high on Freese's list—is a good example of a metropolitan area with just such a "core competence," to use the currently fashionable term. Its Research Triangle Park alone houses about 60 high-tech companies and is in the process of expanding into 2,000 undeveloped acres. Recession? At last report the region's unemployment rate had climbed all the way to 3.5%, which is less than half the national rate. A different kind of core competence accounts for the continuing position of Las Vegas at or near the top of everybody's economic charts, including our Most Business Starts rankings. (See page 38.) Sure, Vegas has been fed by huge population flows. But it's the gaming-and-entertainment industry that's really watering the desert city's bloom. "Las Vegas has become an international destination city," observes Duobinis.

For brand-new companies, of course, a healthy economy can be a bane as well as a blessing. The reason: high costs. The San Francisco Bay area, for example—particularly Silicon Valley—continues to boom; as it did last year, San Jose tops our list for highest number of young high-growth companies. But it's also one of the nation's most expensive regions, which is why even high-tech entrepreneurs frequently set up shop elsewhere. Nor is it easy for newcomers to navigate California's maze of regulations. "California is a very antibusiness state," says Freese.



TOP OF THE LINE: EMPLOYMENT

JOB GROWTH 1990-1991

1. SALT LAKE CITY
2. HOUSTON
3. DENVER-BOULDER
4. RIVERSIDE, CALIF
5. INDIANAPOLIS

SOURCE: Bureau of Labor Statistics; Woods & Poole Economics, Washington D.C. Excludes cities with fewer than 500,000 people in 1991

PROJECTED JOB GROWTH 1991-1996

1. RIVERSIDE, CALIF
2. ORLANDO
3. HOUSTON
4. SAN DIEGO
5. SACRAMENTO

SOURCE: DRI/McGraw Hill, Lexington, Mass. Excludes cities with fewer than 500,000 jobs in 1996

INGREDIENTS OF GROWTH

WHO WOULD START A COMPANY IN New York City? The Big Apple has slumped in the last couple of years, losing more than 100,000 jobs. Its costs are astronomical, its public services dreadful, the hassles of doing business off the charts. None of that fazes entrepreneurs such as Sandy Chilewich, who cofounded Hue Legwear 13 years ago in New York and would do the same thing today in a minute. "There's no other place for our kind of business," says Chilewich. "It's where the buyers come. Any fashion services we might use have offices here. It's the place to be."

The attractions of world capitals such as New York and Los Angeles have always been apparent to company builders

THE INC. 1992 REPORT ON THE BOONDOCKS

Product in hand—a new electronic atlas—Richard Smith began casting about town for a first-rate software-patent lawyer. There wasn't one; Smith had started his company in Fayetteville, Ark.

Jackie Stewart chewed the end of her pencil as she scanned the darkening sky. For the fourth day in a row, no planes would be flying out of Anchorage, Alaska. Her shipment of goods from her Great Alaska Catalog Co., in Juneau, wouldn't reach her customers in time for the Christmas holidays. It was the second season in a row: last year the volcano, now foul weather.

Tim Sharp set his alarm, for the following morning he was off to Germany to present his high-tech, superabsorbent potting material, EZ Soil, to the biggest merchandiser of garden products in Europe. This was no small matter: the nearest airport was three hours away from his hometown of Idabel, Okla.

Mention small-town enterprise and you conjure up Norman Rockwell visions of neighborhood hardware stores and five-and-dimes. But look again: a new breed of growth company is inhabiting Main Street. Smith, Stewart, Sharp, and scores of others are part of a wave of entrepreneurs setting up businesses in places not on anyone's list of hot spots. Instead of Salt Lake City or Silicon Valley, they're in towns such as Fayetteville (population 42,100), Juneau (population 26,800), or Idabel (population 7,000).

Start a business in the boondocks, entrepreneurs like to say, and people on the street will look you in the eye and greet you by name. You can spend your lunch hour cross-country skiing or sitting in a meadow in untrammeled solitude. In addition to quality-of-life advantages, small-town start-ups typically enjoy savings from lower office, service, and cost-of-living expenses ("so you can struggle along not making very much and still manage to survive," says Smith), as well as relative ease of access to start-up funds or lines of credit (familiarity breeds trust). That's why George Harris chose Lewiston, Maine (population 39,800), for his $2-million, high-tech manufacturing business. And why Alex Kahler, for his biotech start-up, made the unconventional selection of Brookings, S. Dak. (population 16,300), where, to his delight, business taxes are "virtually nonexistent" and there is no state income tax.

Boons aside, the boondocks have their share of drawbacks. The price of setting up shop in a place no one has heard of includes compulsory adaptability. Smith had to find a patent lawyer in Los Angeles; then, realizing he couldn't market his product worldwide from Fayetteville, he signed on with a Northern California software publisher. Stewart ran around the weather by switching to a fulfillment house on the mainland—a mail-order outfit in Louisiana, Mo. (population 5,000), whose busy season was the opposite of hers. Sharp can't escape his airport commute, but he sidesteps some trips by reading reams of faxes daily from all over the world.

Are the pastoral virtues worth it? These entrepreneurs, at least, have no plans to move back to the bright lights and big city.

—Alessandra Bianchi

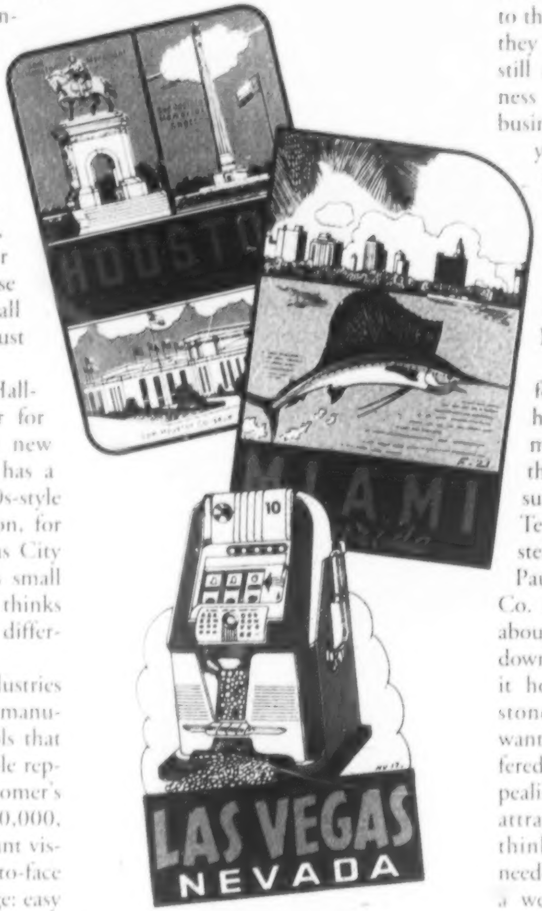
STATE CAPITAL
ALASKA

with highly specialized needs. For certain industries—fashion and financial services are only two—the mammoth metropoles provide unparalleled access to customers and suppliers, a large pool of specially skilled employees, and a variety of supportive institutions such as training schools. What's often forgotten, however, is that other cities, too, offer their own unique combinations of these business inputs. A new or small company does best in a city with just the right blend.

Take Kansas City. Home to Hallmark and H&R Block, a suitor for McDonnell Douglas's planned new plant, the bistate burg scarcely has a reputation as a hotbed of 1990s-style entrepreneurship. Yet Jack Pierson, for one, is convinced that his Kansas City location is a key element in his small company's growth. Bill Crooks thinks the same way—for a completely different set of reasons.

Pierson's company is Preco Industries Inc., a $7-million, 60-employee manufacturer of specialty machine tools that are sold worldwide. Since each sale represents an investment on the customer's part of from $40,000 to $250,000, Preco relies heavily on mutual plant visits and other elements of face-to-face selling. The Kansas City advantage: easy air access for domestic customers, not-too-difficult access for buyers from both Europe and the Far East, and $60 hotel rooms for all. Then too, Preco relies on engineers and skilled technicians, which the region's well-regarded schools and universities turn out in quantity, and on a dense network of highly specialized suppliers, hard to find outside a world-class manufacturing region like Kansas City. "If we were located even 50 miles away, I'd be tearing my hair out every day," says Pierson. "Here, we get instant support from a dozen different suppliers that are just critical to us."

Unlike Pierson, Bill Crooks sells locally and needs little specialized talent. But he's no less enamored of his location. Crooks and partner Paul Khoury, having pursued nationwide careers in the restaurant industry, came home to Kansas City a few years ago to start PB&J Restaurants Inc. The company, which now includes four eating establishments and a catering service, boasts annual sales of around $8 million.



'With my kind of business I could have located anywhere,' says Gerard Hall of SportsMedia Technology. 'But I wanted a great place to raise a family.'

The keys to PB&J's rapid growth? One is loyal customers: in Kansas City, says Crooks, people stay with a restaurant they like rather than scurry to the latest trendy bistro. A second is money. Like most start-up entrepreneurs, Crooks and Khoury had to pony up virtually all their cash for the first restaurant, though they also managed to land a Small Business Administration–guaranteed loan. Ever since, however, the two have found local financiers receptive to their expansion plans, mostly because they made themselves known in what is still a relatively small downtown business community. "People see you at business lunches," says Crooks, "and you move through the system a little quicker because you get to know people. That's a tremendous advantage, having a personal relationship—not just with a loan officer, but with the owner of the bank." Picture that happening in New York or Chicago.

The critical factors naturally differ from start-up to start-up and hence from city to city. Doc Hamm moved from Washington, D.C., to the Raleigh-Durham area to make sure his new company, SilentPower Technologies Inc., would have a steady supply of mechanical engineers. Paul Shand started the Classic Marble Co. in Cleveland because the city was about to embark on $2 billion worth of downtown construction—and because it housed a sizable supply of skilled stoneworkers. Freese of Alphatronix wanted to make sure his new home offered good public education and an appealing quality of life, and thus would be attractive to recruits. But he wasn't thinking Boise or Boulder; he also needed quick access to customers and to a well-developed high-tech infrastructure, complete with technically oriented universities. Finding the right place, he felt, was central to "maximizing our probability of success."

HELP FOR START-UPS

BACK IN 1989 VINCE CAMPANELLI and Frank McConnell had a plan to open a graphic-arts-production-support service, a specialized company to work with ad agencies and corporate-communications departments. They figured they'd do it in San Francisco, where they had lived for 15 years and where they had all their business contacts. Looking for assistance in getting started, they visited the San Francisco Chamber of Commerce and the local SBA office. Not much help was available, they discovered: they were on their own. Then, on a vacation, they visited Cleveland, where both had grown up. On a lark they stopped in at the Cleveland Growth Association's Council of Smaller Enterprises, known as COSE, which serves Greater Cleveland.

"I was astounded," remembers Campanelli. That first visit quickly led to a three-hour meeting with "10 or 15 specialists in all different areas of starting a business"; later, COSE provided the partners with quantities of demographic information and with introductions to veteran Cleveland entrepreneurs willing to share their experiences. When Campanelli and McConnell decided to launch Technigraph Media Services Inc. in the city, COSE offered training in how to write a business plan, introductions to the local SBA and Service Corps of Retired Executives (SCORE) offices, and hands-on assistance in locating financing. "They literally put all the pieces of the puzzle together for me," says Campanelli. Even now, he adds, he continues to review his company's progress with volunteer COSE business counselors.

Cleveland, which a decade ago witnessed the virtual collapse of its old-line industrial economy, "gets" two fundamental facts about the future, namely, that prosperity depends mightily on entrepreneurship and that entrepreneurship can be nurtured. "After the pain we went through, we began to work like crazy to stimulate new ventures of all kinds," explains COSE executive director John Polk. "We recognized we could create a pretty interesting economy, where small companies play a very significant role."

For start-ups, the benefits of this attitude are considerable. COSE runs what is probably the nation's best-developed entrepreneurial-support program: it includes not only extensive start-up assistance but three separate tracks of ongoing management education. The organization also administers a widely admired health-insurance program for small companies. (See "Safety in Numbers," Hotline, May 1991.) Like Campanelli, plenty of Cleveland company owners feel COSE has been a critical element in their success. Moses Saleh, a franchisee of the Coffee Beanery Ltd., wrote a business plan with the organization's help, then submitted it for criticism to three bankers on COSE's list of volunteer consultants. He got back comments, changed the plan, and submitted it to real bankers—one of whom had already reviewed it as a volunteer. "It was like getting the answer to a test before you take it," exults Saleh, who landed a $150,000 loan.

Incredibly enough, COSE is only one of several entrepreneurial-assistance programs in Cleveland. Economic Development Inc. (associated with Case Western Reserve University) runs incubators, provides counseling for start-up entrepreneurs, and sponsors venture-capital conferences. The Cleveland Senior Council, a private-sector version of SCORE, matches start-ups with teams of experienced businesspeople. A recently published list of area resources includes literally dozens of other agencies and organizations committed to helping new and small companies.

The Cleveland model, if it can be called that, is slowly being emulated in other cities, including some that were high on Bob Freese's list. Kansas City's chamber of commerce, for example, runs an entrepreneurial-training program; an organization called the Silicon Prairie Technology Association has set up health-insurance and cooperative buying arrangements for small companies.

In at least one respect, Kansas City is going Cleveland one better: Silicon Prairie and the Ewing Marion Kauffman Foundation's new Center for Entrepreneurial Leadership recently announced the creation of a large-scale information network designed to match investors with early-stage companies. "We've suffered from a lack of seed and venture capital," says Silicon Prairie's Jerry Stogsdill. "Now we're addressing that issue very aggressively."

AND NOW: THE ENVELOPE

ALPHATRONIX'S BOB FREESE AND HIS partners looked carefully at Kansas City, as well as at other finalists such as Washington, D.C., and Salt Lake City. Various cities scored high on one or another criterion. Washington had a well-developed high-tech infrastructure; it also had high costs and a mixed quality of life. Salt Lake City had moderate costs and a high quality of life, but transportation was a problem: reaching customers on the East Coast wouldn't be easy. The ultimate winner: Research Triangle Park, in the Raleigh-Durham area of North Carolina. "Other places in the country might look better in any given category," says Freese. "But when you begin looking at two or three criteria, this area just pops right up."

Ironically, the Research Triangle region is a Johnny-come-lately to the entrepreneurial economy: most of its technology companies are branches of national or international concerns, and

TOP OF THE LINE: ENTREPRENEURSHIP

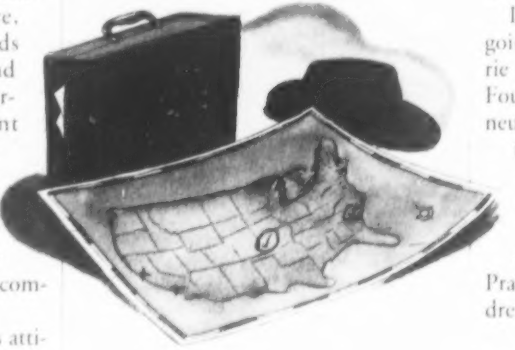
MOST BUSINESS STARTS 1989-1991

1. LAS VEGAS
2. ORLANDO
3. PHOENIX
4. ATLANTA
5. RALEIGH-DURHAM, N.C.

MOST YOUNG HIGH-GROWTH COMPANIES 1989-1991

1. SAN JOSE, CALIF.
2. LAS VEGAS
3. ANAHEIM, CALIF.
4. SEATTLE
5. HOUSTON-GALVESTON

SOURCE: Cognetics Inc., Cambridge, Mass. Business-starts leaders are cities with the most new businesses of five or more employees, founded between December 1989 and December 1991, calculated as a percentage of all businesses in the area. Young high-growth companies are companies whose employment growth (in both absolute and percentage terms) exceeds a certain threshold; the leaders are cities with the most high-growth companies as a percentage of all young companies in the area. Metropolitan areas with fewer than 500,000 people were excluded.



ET CETERA

In some ways, U.S. cities are more different than alike, and finding the right place means knowing what's important for your particular company. Some random samples:

THE TALENT POOL: FULL-TIME COLLEGE STUDENTS PER 1,000 WORKERS

BOSTON	*(highest)* 119.5
NEW YORK CITY	107.1
PHOENIX	57.5
KANSAS CITY	25.5
FORT LAUDERDALE, FLA.	*(lowest)* 9.8

COST OF LIVING (U.S.=100)

SALT LAKE CITY	*(lowest)* 93.2
KANSAS CITY	97.7
CLEVELAND	104.1
RIVERSIDE, CALIF.	122.5
NEW YORK CITY	*(highest)* 149.2

SOURCE: The Wadley-Donovan Group, Morristown, N.J. Metro areas with population of fewer than 1 million were excluded.

start-ups until recently were few in number. "If you left IBM down here, people would ask you why you lost your job," says Fred Hutchison, a Raleigh lawyer who has been involved in local economic-development efforts. "In California they'd ask why it took you so long." But in the past few years, Hutchison and other observers say, the atmosphere has changed noticeably. An organization called the Council for Entrepreneurial Development (CED) offers start-up assistance and networking opportunities. The North Carolina First Flight Center, a state-sponsored nonprofit, recently opened Research Triangle Park's first new-business incubator. Among the signs of change: people such as Gerard Hall, a young New Jersey native and Harvard graduate who runs two-year-old SportsMedia Technology Corp. and has a company called Schoolbook Computer Systems almost ready to launch. "With my kind of businesses, I could have located anywhere," says Hall. "But I wanted a great place to raise a family and settle down, as well as a great place to run a high-tech company."

The emerging interest in entrepreneurship clinched the deal for Freese. "A small company coming into this area gets a lot of help from an organization like the CED, all of it free," he says. One key moment for Alphatronix: it made a presentation at a venture-capital forum organized by the CED. That led to one contact, which led to another, which led eventually to two rounds of expansion capital totaling $4.5 million.

Today Freese couldn't be happier with his Research Triangle home. Even so, you get the sense that several of the cities on his list would have been fine, too—and that they aren't the cities that would have been on anyone's list in the past. "You go back seven or eight years," he says, "and everyone was talking about Silicon Valley, Southern California, and Boston. Those areas just aren't as fertile for growing new companies today.

"But Cleveland, Kansas City, Raleigh-Durham—they all have a reasonably good quality of life, good transportation, good educational systems, a favorable climate for start-ups." The right city for you? It's your call. But your own list, like Freese's, may include some unexpected candidates. ❏

Data for this article were compiled under the direction of special-projects consultant Sara Baer-Sinnott.

PICK YOUR PLACE

When it comes to cities, one size doesn't fit all

Everybody loves to see who's on top, which is why so many books and magazines give us features such as the 10 Best Cities for Business. Where start-ups are concerned, no ranking could be sillier. A fledgling company needs a city that suits its own unique needs—that offers the right combination of robust markets, appropriate business inputs, and support for entrepreneurship. A new clothing manufacturer could succeed in Los Angeles and fail in Des Moines. A telemarketing company might do the exact opposite.

So start by picking what kind of city your company could thrive in. A guide:

CITY HALL
LOS ANGELES

Los Angeles (top) and Miami are international in business orientation.

WORLD CAPITALS

PROTOTYPE: 20th century—New York City, 21st century—Los Angeles. The cities that are truly international—in outlook, in population, in business orientation. L.A.'s foreign trade has risen 12% a year since 1980. Immigration between 1980 and the year 2000 is expected to total 6 million.

UP-AND-COMER: Miami. Unemployment's high at the moment, but Latin American trade will revive the almost-bilingual city.

An Entrepreneur's Dream: Plenty of hardworking immigrants. Vast numbers of specialized suppliers and specialty markets. "If you're oriented toward Hispanic or Asian customers, L.A. is the place to be," says Stephen Levy, an expert on California's economy.

An Entrepreneur's Nightmare: Costs, congestion, crime. Riots (at worst) and red tape (at best). Linda Griego spent four years trying to open her first L.A. restaurant. It took so long, she says, because she kept bumping into code violations. Hopeful sign: Griego is now the city's deputy mayor, working to change its attitude toward new business.

An Ideal Location For: Specialty companies. Internationally oriented companies. Financial and business services. The New York metro area has more than 28,000 business-service establishments, L.A. about 18,000. Most of America's other big cities have fewer than 5,000.

POPULATION MAGNETS

PROTOTYPE: Orlando, whose payrolls grew 15% in only two years, before the recession hit. Riverside, Calif., east of Los Angeles, expecting 20% employment growth between now and 1996. Like a river, population is flowing south and west: every one of the top 10 job growers in the next five years is in a Sunbelt state.

UP-AND-COMER: Las Vegas. Still not a big city—1990 metropolitan population was only 750,000—the gambling mecca tops nearly every growth chart. Number of jobs rose 8% in the last two years.

An Entrepreneur's Dream: Plenty of labor. Plenty of land. Growing markets, both business and consumer. "Las Vegas can be a dynamite place to start a business," says Tom Carns, founder of PDQ Printing. "Most of the companies are small." Like PDQ, your company can grow with its customers.

FREMONT
LAS VEGAS CLUB
Golden Goose

Las Vegas 'can be a dynamite place to start a business.'

An Entrepreneur's Nightmare: The curse of any frontier, namely, that a lot

PHOTOGRAPHS: TSW—MARK LEWIS; ARTHUR TILLEY; DAVE JACOBS

of people arrived only yesterday. "You wouldn't take a personal check from people here unless they have a check-guarantee card from their bank," says Carns.

The Ideal Location For: Anybody looking for booming local markets. "In a static area, a start-up has to take market share away from existing suppliers," points out Martin Holdrich of Woods & Poole Economics Inc. "Growing areas demand new output and new suppliers." Will population flows reverse themselves? Not anytime soon, says Holdrich.

MIDDLE-OF-THE-ROADERS

PROTOTYPE: Salt Lake City. Not huge, not on either coast, not cosmopolitan, not known for any particular industry. Loved by residents, ignored by everybody else.

UP-AND-COMERS: Kansas City; Des Moines.

SALT LAKE CITY
UTAH

Salt Lake City (top) and Des Moines are loved by residents, ignored by everybody else.

An Entrepreneur's Dream: Good education. Utah has the highest literacy rate of any state, Iowa the highest SAT scores, Kansas City the most innovative inner-city school-reform program. Low cost of living. Easy access, internally and externally. "A tie-up on our interstates is when traffic slows to 25," says Jerry Stogsdill of Greater Kansas City's Silicon Prairie Technology Association. "And the airport can sometimes seem like a ghost town, it's so easy to get in and out of."

An Entrepreneur's Nightmare: Shortage of capital, particularly from organized venture-capital firms. Also, "the old perception/reality thing," says one Kansas City business owner, explaining why even local customers look down their noses at homegrown suppliers. "People don't expect to be able to get what they need locally."

The Ideal Location For: Office operations. (Des Moines's insurance industry is second only to Hartford's.) Telemarketers (well-educated workers, no regional accent). Any company selling or shipping from one location to a national market.

RUSTBELT REVIVALS

PROTOTYPE: Pittsburgh. From defunct steel town to most-livable city, in a few short years.

UP-AND-COMERS: Cleveland; Rochester, N.Y. Revivified manufacturing base complemented by new service industries.

Pittsburgh (top) and Cleveland, where city hall and the state house appreciate entrepreneurship.

An Entrepreneur's Dream: Well-established universities set up specialized research-and-development centers, then spin off dozens of advanced-technology companies. City and state governments realize the importance of entrepreneurship. There's "an atmosphere that recognizes the future of this region lies in small business," says Albert Van Kirk of King's Medical Co., in suburban Cleveland.

An Entrepreneur's Nightmare: In some industries, strong unions. "They can make it hard on you if they want to," says a company owner in the construction industry.

The Ideal Location For: Technologically sophisticated manufacturing. Rochester mounts a collaborative effort in next-generation optics-manufacturing technology. The Cleveland Advanced Manufacturing Program helps small companies learn the latest production technology.

URBAN BOUTIQUES

Austin and other urban boutiques represent the 'places of the '90s.'

PROTOTYPES: Austin, Tex.; Cambridge, Mass.; Raleigh-Durham, N.C. Smaller, university-based cities; some are state capitals. Durable economies with high concentrations of Ph.D.'s. "These are the cities that will be growing," says Jim Renzas, executive vice-president of Paragon Decision Resources Inc., in Irvine, Calif. "They're the places of the '90s."

UP-AND-COMERS: Madison, Wis.; Boulder, Colo.

An Entrepreneur's Dream: The urban boutiques keep repopulating themselves with highly educated people. "The most successful companies are knowledge-intensive companies that need to be able to recruit bright, talented people out of good universities," adds Renzas.

An Entrepreneur's Nightmare: A lot of generals, not many soldiers. If your company needs regular, dependable help at lower skill levels, set up shop somewhere else.

An Ideal Location For: R&D. Other high-value-added operations such as specialty professional-service firms.

AMERICA
LOVE IT
OR
LEAVE IT

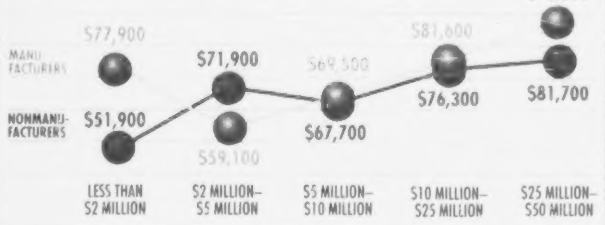
PHOTOGRAPHS: TSW—DAVID FRASER, JAMES BLANK, STEVE ELMORE, PETER PEARSON, ROBERT E. DAEMMRICH

BENCHMARK

Do You Pay Your Top Sales and Marketing Executives Enough?

The figures below should give you an idea of whether the salaries you pay your top marketing people are in the ballpark. In the Northeast, expect to pay your sales and marketing execs 99% of the average; in the Southeast, 101%; in north central states, 97%; in south central states, 87%; and in the West, 116%. Also, a big part of sales and marketing execs' compensation is tied to bonus plans, which vary widely in type and amount.

Average 1991 Base Salary for Top Sales and Marketing Executives



Source: Ernst & Young's 1992 Executive Compensation Middle Market Survey of 669 companies with annual sales of $50 million or less, New York City.

PROMOTIONS

Sampling with a Twist

PRODUCT SAMPLING IS A time-honored, inexpensive way to get people to try something new. For about $100 a day, you can hire a demonstration company to set up a table in the supermarket (see "Product Sampling," Sales & Marketing, October 1991) and give samples to upwards of 500 prospects a day. But when your product is in some 6,000 stores, $100 per demo adds up fast. So tofu maker Nasoya Foods, which uses recipes for its in-store demos, shares demonstration costs with the vendors of products used in the recipes. "It makes it affordable to introduce tofu to a lot more people," says John Paino, president of the $7-million Leominster, Mass., company.

Stonyfield Farm also teams up with its vendors. In March the $14-million maker of yogurt and frozen yogurt in Londonderry, N.H., ran a 30-day promotion with Rebecca's Café, a Boston chain of eight "upscale fast-food" restaurants. Café patrons were treated to a free scoop of Stonyfield frozen yogurt on top of whatever Rebecca's dessert they ordered. Stonyfield gave Rebecca's credit for the frozen yogurt used, and the two companies split the cost of the point-of-sale material—namely, placards proclaiming, "There's only one way to top our desserts." Rebecca's sold about 15% more sliced desserts that month than usual, and in a usually dead month for frozen yogurt, about 1,250 customers opted for it.

Says Stonyfield president Gary Hirshberg: "We don't advertise, and we can't afford supermarket slotting fees, so getting people to taste our product is our entire focus."
—*S. G.*

SELLING

Why Continuity Clubs Work

FOR DECADES SOME BOOK PUBLISHERS HAVE MULTIPLIED THEIR sales by persuading customers to pay up front to receive a series of books in the mail over time. Now some small companies are wisely applying the concept of continuity, club, or subscription sales to their own industries. The benefits include—

- **More even cash flow.** "When we didn't have much money, the club helped with cash flow," says Bruce Pavitt, founder of Sub Pop Records, a $1-million independent Seattle record label. To publicize Sub Pop, four years ago Pavitt produced limited editions of seven-inch singles; they sold out quickly at record stores, and disappointed customers complained. So began Pavitt's Single-of-the-Month Club. With 2,500 members, who pay $35 or $60 in advance for 6 or 12 months of new music, the club gave the label a stronger national presence.
- **Lower cost of sales.** A small company can make more money on items sold through a catalog than through retail; with club sales you can also reduce the cost of direct mail. "Instead of printing a catalog and getting just one order out of it, you get all these cumulative orders and can spread the marketing costs out over them," says Dwight McCabe, mail-order director for Starbucks Coffee, a Seattle retailer and distributor of specialty coffees. Starbucks customers sign up to get 6 or 12 months of coffee and pay about $50 or $100 up front. Each mailing promoting the club to the 30,000 existing Starbucks customers costs $40,000, says McCabe. Response rates run as high as 20%. In one recent month, the company's club revenues surpassed mail-order revenues for all of 1991.
- **Predictability of demand.** Ruth Owades has offered "A Year of Flowers" since beginning Calyx & Corolla, an $11-million mail-order flower retailer in San Francisco, in 1988. Customers sign up for 3-, 6-, or 12-month subscriptions and pay $110, $205, or $375 in advance for orchids in February, heather in March, and so on. Depending on the season, club sales account for from 15% to 40% of revenues—smoothing out fluctuations in Owades's seasonal business. "I wish we could forecast the whole year this way," she says, "but the club at least gives us some basis for projections." —*M. P. C.*

▼ ▼ ▼ ▼ ▼

CAVEATS OF SUBSCRIPTION SALES

Club sales are not for mail-order neophytes. Handling fulfillment presents an unusual computer-programming puzzle with few fixed parameters. When Ruth Owades set up her company and her flower-of-the-month club, she hired Nashbar/Associates, a mail-order consulting firm in Youngstown, Ohio, to develop the computer systems that handle Calyx's orders, tracking, and billing. Nashbar defined every possibility: Is the duration of the subscription fixed or open-ended? Do customers pay up front or upon receipt? Can they return a delivery? Nashbar systems start at $70,000.

If you can't afford to make the ongoing investment in software and personnel, consider handing over fulfillment to a service bureau. For names of bureaus, consult the advertisements in trade journals like *Catalog Age* (203-358-9900) or call the Direct Marketing Association (212-768-7277) for a list of recommendations. —*M. P. C.*

CHART ROSS CULBERT LAVERY & RUSSMAN INC NEW YORK

WORK FORCE

Screening New Hires

EMPLOYEE-SCREENING COMPANIES OFFER ONE OF THE CHEAPest and fastest ways to help you hire successfully. A multiservice screening company's background check on a prospective employee will verify educational and work history; check social-security number, as well as driving and credit records; and look into past criminal activity and public filings. Many also do psychological, physical, and drug testing.

Those defensive measures won't find you the best candidate, but they'll quickly rule out those who misrepresent themselves. That's a bigger problem than you may think. Carl King, president of Team Building Systems, an employee screener in Houston, Tex., says 30% of all résumés are falsified.

An average background check costs about $100. But finding the best screener, listed under "management consultants" in the yellow pages, may take a bit of your own investigation. Here's what to ask:

- **Can you do it all?** You may not sign on for every service, but find out what's available. Also ask about turnaround time.
- **How do you get your information?** In addition to databases, the company should have researchers for less accessible information. Also be sure the screener can explain the legal limits to the information it can get in various states.
- **What's your background?** Look for experience, preferably accompanied by a professional degree in personnel, criminal justice, or industrial psychology.
- **Could I see a sample copy of the report I'll be getting?** Better yet, ask the company if it will run a background check on *you*.
- **Do you use your own services?** Yes is the right answer. Ask how often.
- **Can I have five references from longtime clients?** Call them.

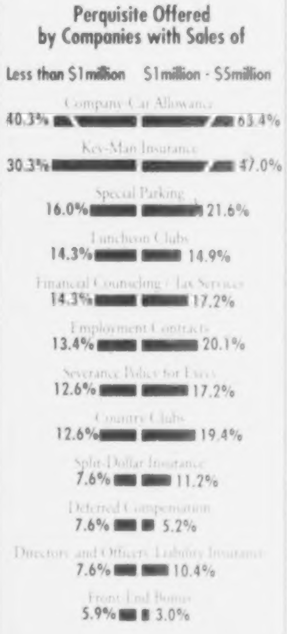
Finally, you should ask your state's Department of Consumer Affairs if the company is licensed, and check to see if any complaints have been lodged against it with your Better Business Bureau or chamber of commerce.

—E. E. S.

BENCHMARK

Popular Perks

The most common special privileges granted to employees of small companies are a company-car allowance, key-man insurance, and special parking, according to a survey by Ernst & Young. Once a company hits $1 million in sales, employment contracts and country-club memberships supplant luncheon clubs and tax services as the next-most-favored perks.



Source: Ernst & Young's 1992 Executive Compensation Middle Market Survey of 669 companies with annual sales of $50 million or less, New York City

RESOURCES

Finding Management Temps

A surfeit of highly seasoned managers, usually refugees from restructured corporations, is causing interim-management agencies to flourish. (See "Outsourcing Your Top Management," below.) Here are five that frequently deal with small and midsize companies:

Princeton Entrepreneurial Resources
Princeton, N.J. (609-243-0010)
Karin Stratmeyer, president
Database of 5,000 names

Executive Corner
(Owned by Robert Half International)
Menlo Park, Calif. (415-329-8100)
Max Messmer, chairman

Dahl-Morrow International
Reston, Va. (703-648-1594)
Barbara Steinem, president
Database of 7,000 names

Klivans, Becker and Smith
Cleveland (216-621-2970)
Richard Smith, president
Database of more than 4,000 names

IMCOR (Interim Management Corp.)
New York City (212-213-3600)
John Thompson, chairman
Database of 8,000 names

—E. E. S.

HIRING

Outsourcing Your Top Management

THE WAY DICK ATKINS SEES IT, the *Fortune* 500's loss is small corporate America's gain. Displaced professional managers have been flocking to "interim-management" agencies, which rent out top execs for 6- to 12-month stints. "It's a key opportunity for a small company to attract very seasoned and experienced executives without making a long-term commitment," claims Atkins, president of AD/SAT, a New York City distributor of advertising via satellite.

Because the stakes are so high in an upper-level position, the benefits of a temporary union are magnified. Most compelling: companies with a specific problem can bring in someone with proven skills to solve it. If the executive isn't succeeding, "it's much easier to end the relationship without severance packages," says Atkins.

Other advantages: interim managers have little interest in the company's internal politics; an interim manager's paycheck doesn't upset the internal salary structure; entrepreneurs can give power sharing a whirl; companies can keep a job open for managers who are ill or on sabbatical.

Naturally, there are some potential pitfalls. Employees may not be interested in bringing the new senior vice-president up to speed when they know they'll have to do it all over again in six months. Or worse, key employees may feel resentful that they weren't selected for the job.

Temporary managers are also pricey. Though fees vary, interim-placement companies generally charge a premium of from 30% to 50% of a full-time executive's base salary, prorated for his or her length of stay. That's hefty, no question, but the placement companies argue that temporary execs are still a bargain compared with permanent hires. In addition to a base salary, a high-caliber, permanent manager would normally expect benefits, a golden parachute, a bonus, and perks—which would easily equal 75% to 100% of salary.

—E. E. S.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

INVENTORY

Tracking Useful Inventory Trends

MELBURN WHITMIRE'S WHITMIRE DISTRIBUTION, A WHOLESALE pharmaceutical distributor based in Folsom, Calif., spent three years developing a high-quality inventory-management system, which Whitmire provides at no charge to his 7,000 customers. Here's advice for any business setting up an inventory-management system:

- **Concentrate on high-turnover items.** Whitmire divides his customers' products into four categories, depending on how quickly they have turned over historically. Then he recommends that the customers' managers analyze products "every way imaginable, from the size of financial investments in them to their turnover cycles," to look for ways to reduce inventory.
- **Test your information.** To make certain his biggest customers—pharmacies and hospitals—could easily track their orders, turnover rates, and storage-costs, Whitmire test-marketed his method with a group of customers as well as with his own key managers. Many customers have been able to reduce on-site storage needs by as much as 40%. —*J. A. F.*

RESOURCE

Getting Paid

Mastering Collections: Business to Business (K&F Seminars, 800-633-6069) won't be anyone's idea of a fun read. But this 130-page paperback written by Donald Kramer, a collections lawyer at Kramer & Frank, in St. Louis, is valuable all the same for its exhaustive advice on everything from setting up effective record-keeping and tickler systems, to carrying out a five-step collection "action plan."

Kramer's suggestions are useful for companies of all sizes, particularly small and growing businesses that don't have full-scale accounts-receivable departments.

In one especially useful section, Kramer advises companies to negotiate for personal guarantees from customers that will cover *past* as well as future obligations and will include protection in case the guarantor dies. (Samples of personal guarantees, collection letters, and other documents are included.) Kramer also helps readers evaluate the costs and benefits of credit insurance.

Motivated readers can test their newfound skills with the pop quizzes that follow each chapter. But even without the quizzes, the book is well worth its $39 price tag.

—*J. A. F.*

ESTATE PLANNING

A Guide to Trusts

WHEN IT COMES TO ESTATE planning, trusts can be invaluable in reducing future taxes. "As a general rule, anyone with total assets—including a home or business—worth more than $1 million should use trusts in his or her estate plan," says Joshua Rubenstein, a partner in the New York City law firm Rosenman & Colin.

Unfortunately, surveys indicate that trusts are seldom used by the owners of growing businesses (see "Missed Estate-Planning Opportunities," right), perhaps because they seem intimidating. In fact, they're relatively simple legal documents that split the ownership rights for any asset into two parts: financial interests and legal control. The goal is usually to reduce future taxes.

Normally, both those rights belong to an asset's owner. But he or she can design a trust so that beneficiary rights (the cash) will go to children or a spouse, while legal rights (such as the ability to control investment decisions) will pass to an official trustee, often an accountant or a lawyer.

While there are many trusts to choose from, Rubenstein recommends these two:

Credit Shelter (or Bypass) Trust. This trust helps ensure that your kids save estate taxes on the maximum amount permitted by law (currently $600,000 for each person's estate, $1.2 million for the estates of a married couple). If either spouse dies first, $600,000 worth of his or her estate passes into a trust, which the surviving spouse can benefit from but doesn't legally own; after the survivor's death, the trust passes on to the children free of estate taxes, as does $600,000 from the other spouse's estate.

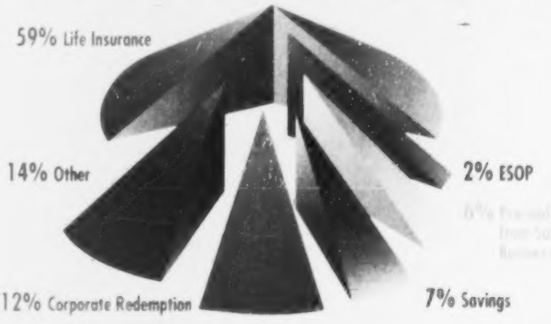
Insurance Trust. When you assign ownership of your life-insurance policy to a trust that your heirs can benefit from but will not legally own, the death benefit escapes estate taxes. Here's how: When the insured person dies, that person's *insurance trust* legally owns the proceeds of his or her insurance policy; since the trust owns it, the IRS can't assess gift taxes. Then the trustee (who controls legal ownership) can distribute income or principal to the heirs (who own "beneficiary" rights), still free of estate taxes. Sounds too good to be true, but it's not. —*J. A. F.*

BENCHMARK

Missed Estate-Planning Opportunities

When it comes to estate planning, accounting firm BDO Seidman found that most middle-market company owners relied on life insurance to pay for estate taxes that currently run as high as 55%. Too bad. Insurance is costly, and sometimes unnecessary when tax-advantaged strategies such as trusts (see "A Guide to Trusts," above) can be used instead.

Which of these methods do you use to provide for the payment of estate taxes?



Source: "Pulse of the Middle Market," a BDO Seidman survey of 2,201 companies, 88% with annual revenues of less than $50 million, New York City, 1991.

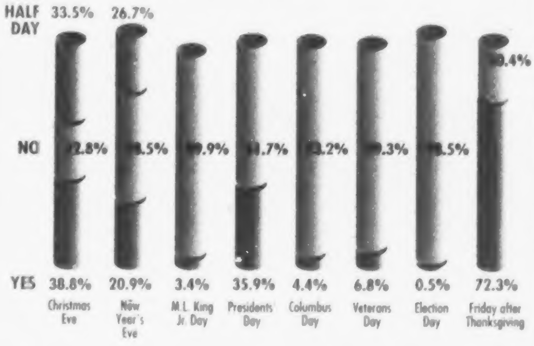
CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

IN THE OFFICE

BENCHMARK

Sorry, Our Office Is Closed

In a recent poll of small-business CEOs, *Inc.* asked, "On what holidays, other than the six traditional ones, do you close your office?" The answer, as pictured below: not all are generous with the extras. But, the survey showed, there's more than just holidays for CEOs to contend with.



Come August, commerce in many countries closes down and takes to the beach en masse. Not so here. An *Inc.* poll of the vacation policies of U.S. small businesses reveals that a mere 5.8% declare companywide hiatuses. If anything, the trend on these shores is toward trendlessness. In addition to regular vacations, some CEOs throw in "floating," "personal," or "discretionary" days, to be used at an employee's option. And a substantial number—18% of respondents—also give an employee his or her birthday off. (One CEO declares his own birthday an annual holiday.) The most liberal policy is for illness, with 69.4% allowing five or more paid sick days.

Because many employees tacitly take the odd day anyway, 26.7% of the CEOs surveyed close the office on Fridays that follow Thursday holidays, and Mondays that precede Tuesday holidays; another 14.1% don't, but they admit they tolerate absence. More than half (54.4%) do not grant religious holidays such as Good Friday or Passover.

CEOs are split on the amount of vacation a new employee merits: 44.2% say one week; 48.5% say two. Employees who have completed five years still get just two weeks from 31.6% of the CEOs—but three weeks from 56.8%, and four or more from 7.3%. And 10-year employees get four weeks or more from 35% of the polled companies. As for the putatively hardworking CEOs, last year 20.9% awarded themselves at least four weeks. *—R.A.M.*

Source: Survey of 206 companies, 72% with sales of $20 million or less, by *Inc.* and The Executive Committee, San Diego, 1992.

OFFICE EQUIPMENT

Slightly Used, Plenty-Cheap Decor

OK, SO BLUELINE SOFTWARE'S fixtures don't match. Then again, its founder is no spendthrift decorator. He's a frugal executive who buys at auctions and, for a mere $400 each, has outfitted the offices in his 70-employee Minneapolis enterprise with furniture and equipment that would have cost $2,500 new. As a result, the interior of Bill Cecchi's six-year-old, $9-million company vibrates with a luck-of-the-gavel din of shapes and colors. But it hardly looks chintzy. Cecchi once paid $100 each for a mismatched lot of top-of-the-line desk chairs worth $800 apiece. "If we bought a *new* chair for $100," he figures, "it wouldn't last six months."

Cecchi got going by scouring newspaper ads for liquidations. (He's open to everything except computers, which, he grants, are discounted deeply enough new.) Now that he's been bargain hunting for six years, auctioneers alert him directly. But the problem remains that bankruptcy sales are usually held on weekdays, so someone from the office has to stand vigil—an on-the-clock chore Cecchi leaves to his office manager. The efficient way to approach any auction, he advises, is to research the retail prices of the brand-name accoutrements described in the announcement, arrive early to examine authenticity and condition, decide what you're willing to spend per item, and stick to that limit lest you get seduced by bidding's competitive cadence. "I've seen people pay more at auction," he cautions, "than they'd have paid for the same furniture new."

Other considerations:

- **You don't always find what you want.** A thrifty furnisher must have foresight, patience, and cash. Cecchi starts to shop six months in advance of upcoming needs and has acquired irresistibly cheap goods the company doesn't need on the gamble that someday it will.
- **You don't get warranties.** Items sold at auction are unreturnable. Cecchi fearlessly shelled out $2,200 for 11 fancy shelving-and-storage cubes, not only because they were a spectacular deal—they would have cost $33,000 retail—but because "what could go wrong with an office cube?"
- **You don't get free delivery.** Trucking can run up costs. But someone in the office must have a pickup.
- **You don't get payment terms.** It's a rare distress sale that isn't cash and carry.

—Michael P. Cronin

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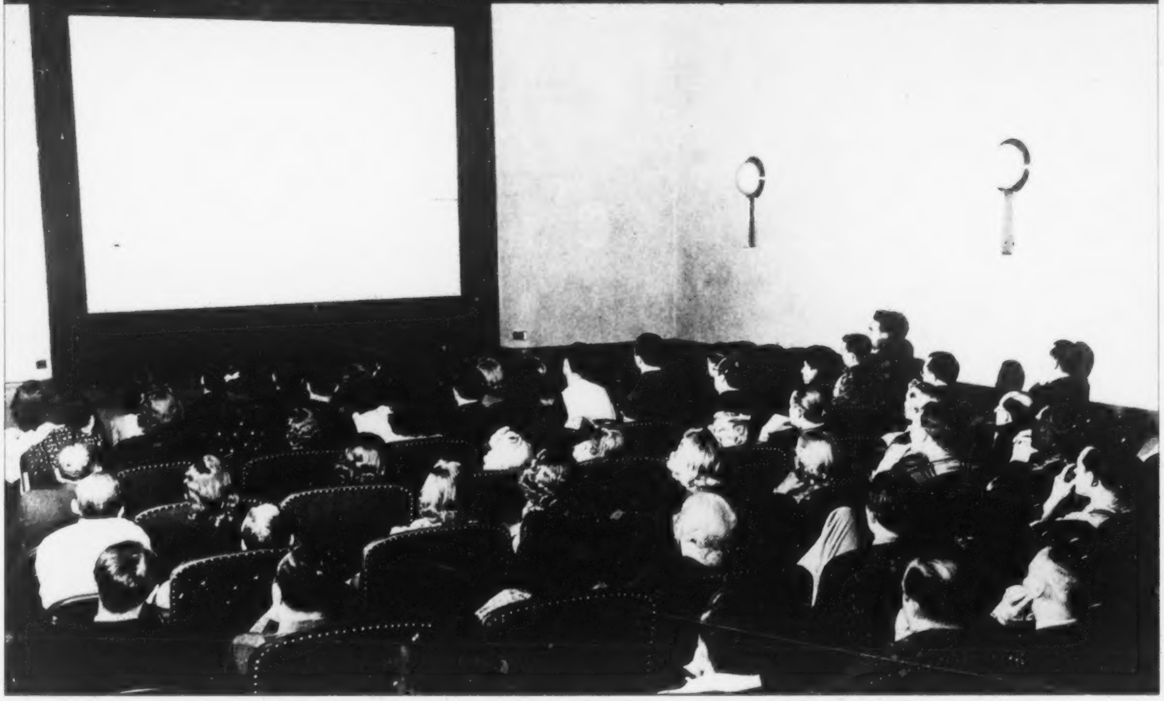
Edited by Robert A. Mamis

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

THE AMERICAN DREAM



BUSINESS FOR SALE—VINTAGE IDAHO MOVIE THEATER

THE BUSINESS A charming, vintage, single-screen, 249-seat movie theater in the heart of Idaho's scenic Big Lost River Valley, approximately 45 miles northeast of Sun Valley. The theater operated from Christmas Day, 1940, until 1982, closed for eight years, then reopened in May 1991 after a complete—and historically sensitive—overhaul by the sellers. Currently there are six screenings a week, and ticket sales produce 75% of revenues. (Concessions account for the rest.) The sellers, a young couple enamored of weekend travel, want a change of lifestyle.

FINANCIAL SUMMARY

	1992	1993*
Gross revenues	$50,000	$75,000
Recast earnings before interest, taxes, depreciation and owner compensation	$10,700	$18,500

*projected

PRICE $135,000

OUTLOOK This theater is pure Americana, but it belongs to a dying breed: since the late 1960s, single-screen facilities have been gradually supplanted by department-store-like multiplexes. And though ticket-price inflation has kept the movie industry's box-office gross rising (to nearly $5 billion at last count), movie-theater *attendance*, thanks to video and cable, has been flat for a decade. Insiders wonder, Do nonmultiplex theaters make economic sense anymore?

PRICE RATIONALE The price includes 4,000 square feet of Mackay, Idaho (population 530), history: the theater was originally the town grocery store, and the adjacent concession area was the corner saloon and later a restaurant. (Counter stools, antique wooden booths, and jukebox are still in place.) The current owners spent $90,000 on renovations, and industry gurus say their 21% first-year margin was good. The price, according to those same gurus, may not be. Earnings multiples for independent theaters generally run to 5 or 6, not the 7.3 (on *projections*) sought here. But reopen the restaurant, and the equation could change.

PROS The potential (there's room inside to expand), the fun, and the complete lack of competition—the closest rival is more than 100 miles away.

CONS The gross (don't quit your day job), the price, and the *reason* there's no competition—with 7,000 people in the valley, there's not much of a customer base, either.

—Alessandra Bianchi

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to Jim and Ruth Muffett, 208-588-2285.

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Inc.®

THE MAGAZINE FOR GROWING COMPANIES

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The One-Page Strategy Guide

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RESULTS FROM
JUNE

The Inc. FaxPoll™

WHAT ABOUT JAPAN?

Bashing takes a backseat to self-criticism.

DO YOU AGREE OR DISAGREE WITH THE FOLLOWING STATEMENT?

"To ask whether Japan plays fair is the wrong question. America's unique sense of fairness is not shared by the rest of the world. Japan's way of doing business is more relevant and effective [in today's international marketplace]."
—*James Morgan, chairman of Applied Materials Inc.*

Agree 70% Disagree 30%

Given the current state of this country's economy and the prevailing sentiment toward Japan, this is a surprising response. You had every opportunity to turn this into a Japan-bashing fest, but most of you agreed that the time for griping and groaning is past. It's time to take action. "Casting blame and pointing fingers will not get America ahead. Focusing on goals and working toward solutions in a global environment will."

The overall perception here seems to be that the Japanese are far better at executing than we are—resulting in better quality and efficiency—but are still not up to U.S. standards of innovation and customer service. There is some feeling that Japan absconded with our innovations and technology and used its superior manufacturing capabilities to capitalize on them: "We did all the R&D and then dropped the ball." "We sold out our businesses and technology for short-term profit."

IN WHAT AREAS WOULD YOU SAY JAPAN DOES A BETTER JOB THAN THE UNITED STATES?

Manufacturing	72%
Education	**67%**
Management	**49%**
Research and development	**43%**
Customer service	**32%**
Innovation	**28%**
Banking/finance	**27%**
Services	**16%**

How did Japan gain so many advantages? The strong undercurrent of opinion says the Japanese government is a far more effective business partner than the U.S. government, cultivating Japanese industry and strictly regulating the competition. The next-biggest advantage in the minds of most of you? The Japanese cultural predisposition to excellence as expressed by the country's emphasis on education, a strong work ethic, and group effort. "Americans are too concerned about how many days there are until the weekend."

TO WHAT WOULD YOU ATTRIBUTE JAPANESE ECONOMIC SUCCESS IN THE POSTWAR ERA?

Government-industry collaboration	47%
Superior work ethic	**37%**
Superior educational system	**35%**
Decrease in U.S. competitiveness	**35%**
Cultural emphasis on group effort	**31%**
Greater emphasis on research, technology, and manufacturing	**30%**
Exclusion of foreign competitors from domestic markets	**29%**
Superior management philosophy	**24%**
Imitating U.S. ideas	**20%**
Japanese import restrictions	**17%**

Respondents clearly think we must accept responsibility for our skewed trade relationship with Japan, though where we went wrong is less clear. Is American arrogance the root cause, as some suggest, or are we simply being beaten at some of the fundamental games of business: quality control ("Our products haven't improved as fast as theirs have"); financial policies ("The United States is living beyond its means"); and long-term planning ("We make quick-buck, short-term decisions")?

Many who thought Japan is at least partly responsible for the trade deficit cited Japanese import restrictions and Japanese interference with U.S. trade policies as causes. But most of the blame fell on the United States: "We've allowed Japan power in our government and in trade that it would never allow us."

What should be done? Only 29% thought all trade restrictions on both sides should be removed. Most (61%) said our long-term policy should encompass limited restrictions and the goal of mutual interdependence. A small minority (8%) called for full-blown protectionism. —*Christopher Caggiano*

YOU THINK THE U.S. TRADE DEFICIT WITH JAPAN IS . . .

Primarily the United States' fault	**25%**
A mix of both, but more the United States' fault	58%
Primarily Japan's fault	**3%**
A mix of both, but more Japan's fault	**14%**

WITH THIS POLL we included a true/false quiz, and the majority answered four out of the five questions correctly. For the record: the U.S.-Japan trade gap has narrowed by nearly $14 billion over the past five years; in 1991 U.S. companies shipped roughly $48 billion worth of goods to Japan, second only to what they shipped to Canada; and the productivity of the average U.S. worker has more than doubled since 1948.

True or false:	T	F
Since 1987, the U.S.-Japan trade gap has increased	62%	38%
Japan is the second-largest U.S. export market	51%	49%
The average Japanese works about 225 more hours per year than the average American	81%	19%
The productivity of the average U.S. worker has decreased since 1948	39%	61%
The U.S. Treasury relies heavily on Japan to finance our national debt	64%	36%

Note: Multiple responses account for total percentages above 100%.

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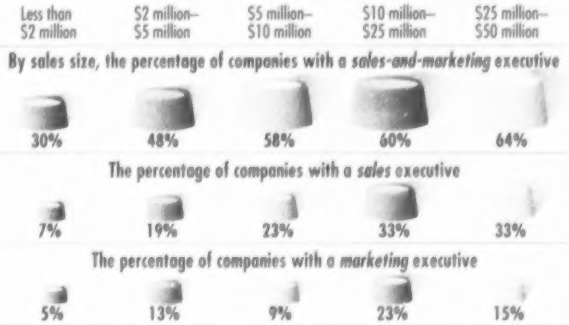
BENCHMARK

Do You Have a Sales-and-Marketing Manager?

Do you really need one? The 600 small companies surveyed by Ernst & Young for its annual compensation survey indicated a bias toward the double-duty title of ***sales-and-marketing executive****; more companies had an executive bearing the combined appellation than had one with a simple* ***sales executive*** *or* ***marketing executive*** *title. Of course, the titles aren't mutually exclusive—some companies do have both a sales exec and a marketing exec under the same roof.*



Source: "The 1991 Ernst & Young Survey of Executive Compensation for Middle Market Companies," based on data collected from 669 companies, roughly 55% of which had sales of $10 million or less.

DISTRIBUTION

Split-Identity Branding

CHRISTIE HAUCK WORKED hard to establish a name with consumers for his $3-million company, Christie Cookie Co., in Nashville. So why is he slapping other companies' logos on his product? He hopes wholesale and corporate sales can take him national.

Wholesale now represents 50% of Hauck's sales. He prepares special versions of chocolate-chip cookies for restaurants and upscale grocers to sell as their own brands. Hauck also sells cookie-filled tins to corporate clients, who give them to customers and employees. Each tin bears the company's logo and includes a card signed by the CEO. Hauck's 300 corporate customers, which spend an average of $300 to $500 an order, account for 7% of his revenues and are the most profitable part of the business.

The gift-tin *recipients* constitute another healthy market for Hauck; mail-order sales make up about 3% of his business. Inside every tin, with the cookies, is a "We Ship Anywhere" note from Hauck that has an 800 number to call. Over the past eight years, he's built a list of 60,000 names, which generates response rates of about 35% on yearly mailings.

The cookies still sell well in Hauck's six stores (which contribute about 40% of sales), but it's too late to be the next Mrs. Fields. "Our strategy was the only way to get a foot in the door." Now it's his ticket to expanding nationwide.

—*S. G. and Tom Richman*

IMPORTING

How to Navigate the Importing Seas

GOING DIRECTLY TO A FOREIGN SOURCE OF PRODUCT LOOKS like a great way to cut costs and boost margins. For Peter Nielsen, importing hard-to-get parts for vintage Volvos proved to be the perfect complement to his auto-repair-and-restoration business, Swedish Classics, in Oxford, Md.

Nielsen, whose sales are just under $500,000, has three employees and three WATS lines. He got his start in importing about 10 years ago by copying down the address labels on a few parts he had purchased from U.S. suppliers and contacting the manufacturers in England and Sweden directly. "They were very friendly," he says. Today Nielsen stocks thousands of Volvo parts and has the exclusive U.S. distribution rights on a profitable line of Volvo emblems. But, as Nielsen knows, there's more to importing than making a few long-distance phone calls. Before you jump in, consider:

- **Total product costs.** Dozens of components factor into what's called the landed cost, or the price of purchasing and securing the product: all will have an impact on your profit margin. The landed cost includes the initial cost of the product from the factory; air- or ocean-freight charges; U.S. customs duties; interest on bank letters of credit; and customs-broker fees. If, like Swedish Classics, you can't fill an entire air-freight container on your own, expect to pay a premium.
- **The customs maze.** Nielsen mistakenly figured he could take his first shipment through the U.S. Customs Service (USCS) himself. "It took me all day to do it, and I barely got the shipment through. Every part comes with a series of questions and criteria." Soon after, he hired a customs broker to handle all freight arrangements. Ask other importers in your industry for names of customs brokers, who must be licensed by the USCS and usually charge a flat fee "per entry."
- **Quality control.** When finding product suppliers, visit a number of foreign factories or trading companies, suggests Steven Kivitz, foreign buyer for Chadwick Miller, a Canton, Mass., importer of giftware. Then hire an overseas inspection agency, which will charge a flat fee or by the hour, depending on the tests done. You can make passing inspection a condition of the letter of credit, he adds, so your bank won't release payment without the stamped certificate of inspection.—*S. G.*

▼ ▼ ▼ ▼ ▼

RESOURCES

The Language of Importing

Importing has a language all its own. To learn the lingo, Steven Kivitz, foreign buyer for importer Chadwick Miller, suggests consulting two government publications. *Importing into the United States* (1991, $4.75) covers the entry process, assessment of duties, and other issues; it's available from local U.S. Government Printing Office bookstores, or by phone (301-953-7974). The two-volume *Customs Regulations* (Title 19, Code of Federal Regulations) lays out the rules for bringing products through U.S. customs; look for it in the government-books section of the library. Neither publication is easy reading, but both will introduce you to the terms used by customs officials, trading companies, and customs brokers. —*S. G.*

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

ACQUISITIONS

Deal-making Price Strategies

ANYONE WHO'S EXPLORED the possibility of buying a business recently knows that the tight financing environment makes it tough to put deals together. Unlike a few years ago, today most lenders aren't willing to do highly leveraged transactions. Yet company sellers aren't exactly racing to slash their prices. For would-be buyers, says Bob Jones, president of Aimfair, an Alameda, Calif., firm that advises buyers and sellers, "bridging the gap between buyers and sellers presents real challenges." Fortunately, Jones notes, there are good ways to structure purchases without relying too heavily on debt. (One of them—the "covenant not to compete"—was discussed in "Striking a Better Deal" in this column in September 1991.) Below are three more techniques Jones and his colleagues have recently used.

• Employment contracts. These are particularly effective, says Jones, if you're buying a service business (say, an ad agency or a graphics studio), for which much of the value is tied to what the owners and managers know and to their personal contacts. As the buyer, you probably don't want that value to vanish. "So it's to your advantage," he explains, "to pay the owner and perhaps other key people to stay around for a year or two." Typically, notes Jones, sellers want a premium over book value (total assets minus liabilities). But Jones suggests countering with less—and using management contracts both to sweeten the offer and to spread out payments.

• Performance payments. In Jones's experience, this technique can work well in deals involving various types of manufacturers and contractors. The sellers might argue they should be rewarded for contracts that are still in the works. Buyers in turn may be reluctant to reward sellers until the work in question is satisfactorily completed (which may be months or years away). In the recent purchase of a general-contracting business, for example, Jones says the buyer agreed to pay the seller around $10 million; also, the seller got a fixed sum for each completed contract. "It's a good way to give the seller credit for business he hasn't yet completed," offers Jones.

• Contingency payments. In cases in which buyers and sellers have major differences about how they expect a business to perform, contingency payments can be extremely useful, Jones says. "If the buyer has doubts that the growth will continue, contingency payments give the seller an added incentive to make the transfer of ownership as smooth as possible." In the recent sale of a $5-million furniture manufacturer, for instance, Jones says part of the price was tied to the company's future net profits surpassing an agreed-upon level. Depending on the circumstances, he says, "there are any number of benchmarks related to sales or profits that might be appropriate."

—B. G. P.

LEASING

Financing Big-Ticket Software

YOU'VE HEARD OF EQUIPMENT LEASING AND COMPUTER LEASing. Generally speaking, leasing offers a means of financing 100% of a purchase at fixed rates—without jeopardizing existing banking relationships. Now a new flavor of leasing is beginning to pop up: software leasing.

Many lenders and computer vendors won't lend for software because of concerns about the value of the collateral should the user run into trouble. Unlike a minicomputer, which can be resold, software is often customized for a particular setting and has little or no resale value. But as the sums spent on software-related items climb (often, they're more than the hardware), specialized lessors are moving in and assuming the risk.

La Mode, a privately held sportswear maker in Los Angeles, for example, is leasing more than $200,000 worth of software over a five-year period. The alternative, says executive vice-president Sherwood Sterling, was to fund it internally or borrow against other, more tangible assets. Since the collateral is so weak, software lessors base their decisions on the creditworthiness of lessees (the customer's net worth, leverage, interest coverage, and the like).

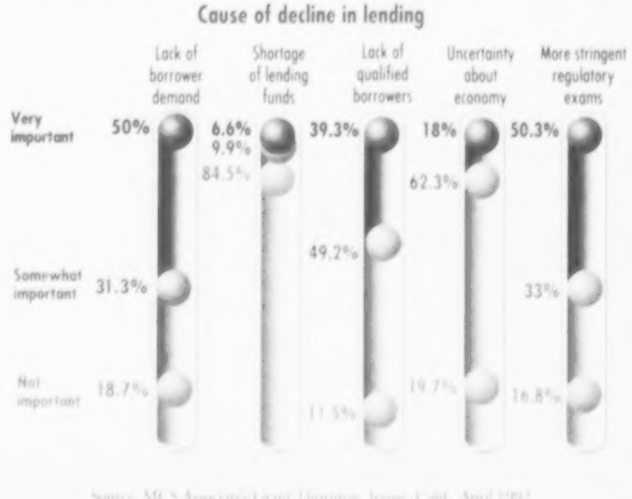
—B. G. P.

Large software vendors will frequently arrange leases on their own products. Two of the biggest independent software lessors are Software Leasing, in Santa Monica, Calif.; and Meridian Software Funding, in Cypress, Calif.

BENCHMARK

Behind the Credit Crunch

In the past couple of years, the level of bank lending has been down substantially. Did bankers tighten their lending standards? Did regulators spook the bankers? Or was there simply a lack of demand for loans? Last spring the accounting firm Grant Thornton surveyed bankers about this subject. Below is how those who worked for banks concentrating on small-business lending rated possible causes of the crunch.



Source: MCS Associates/Grant Thornton, Irvine, Calif., April 1992

CHART: ROSS CULBERT LAVERY & RUSSMAN INC. NEW YORK

CASH FLOW

Skipped-Payment Loans

IF YOUR BUSINESS HAS SEASONAL SLOW periods that make it difficult for you to meet fixed loan payments 12 months a year, take heart. Many banks and finance companies let businesses structure loans that permit them to skip designated payments—in effect, allowing them to customize their payment schedule to match expected cash flow.

Bankers don't always volunteer their willingness to consider nonstandard paybacks, notes Ted Zoli, president of Torrington Industries, a $10-million construction-materials supplier and contracting business, which did its first skipped-payment loan more than 15 years ago. These days, however, such deals are becoming more common, in part because more lenders have computers that can do the calculations.

"Every time we buy a piece of construction machinery," Zoli explains, "we set it up so that we're making payments for eight or nine months, and then skipping three or four months during the winter." This suits the Glens Falls, N.Y., company's needs because its business tapers off during the winter months. Since Zoli misses a few payments, he ends up paying the bank more interest over the life of the loan than he would on conventional financing. But the convenience makes it well worth the extra cost, he argues.

To figure out the proper payment and loan-amortization schedule, Zoli uses a PC software program called Payoff (Phadean, 508-869-6077, $27). The program, he says, shows what happens when he skips (or prepays) any payment over the life of the loan; an additional benefit is that it lets him check the bank's calculations.

For those who are more comfortable with old-fashioned printed tables, *Skipped Payment Tables* (Financial Publishing, 617-262-4040, $27) offers 297 pages of tables covering loans at interest rates from 7.5% to 25%.

—B. G. P.

LENDING

The Biggest Nonbank Lenders

If you've got a young company in need of financing—or a more established business requiring longer-term financing than your lender will consider—your best bet is to find an institution that specializes in loans guaranteed by the Small Business Administration. Last year the SBA guaranteed more than $4 billion in loans to small companies, and a big share of those loans was originated by some 700 lenders scattered around the country that qualify as either certified or preferred lenders. For a list of the biggest SBA lenders in your area, contact the nearest SBA district office. Surprisingly, some of the most active SBA lenders (see table) aren't banks but financial companies, including ITT and (soon) AT&T.

—B. G. P.

	Number of Loans	Amount of Loans (in millions)
Money Store Investment Sacramento, Calif.	668	$253.1
Allied Lending Washington, D.C.	500	$15
Government Funding CALBIDCO Los Angeles	202	$74.4
ITT Small Business Finance St. Louis	158	$51.3
Gulf American SBLC Panama City, Fla.	106	$40.5
First Capital/Heller San Francisco	101	$33.7

Source: *The National Book of Lists*, Local Knowledge Publishing, San Ramon, Calif., 1992.

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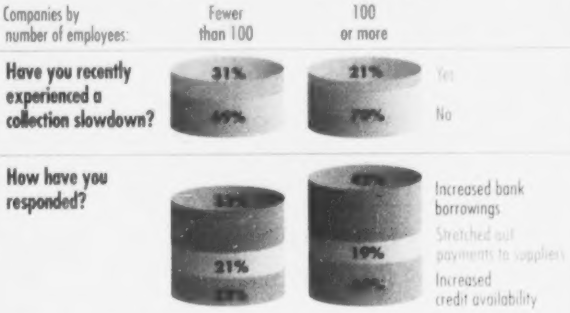
BENCHMARK

Slow Receivables Plague Companies

Accounts receivable are taking longer and longer to collect, especially at small companies, reports accounting firm Coopers & Lybrand. Twenty-eight percent of 362 CEOs of companies with a median of $7 million in sales and 58 employees surveyed found that the average payment period was a troubling 47 days, forcing businesses to take defensive measures to protect cash flow.



Source: Coopers & Lybrand. "Trendsetter Barometer," New York City, March 1992.

CASH FLOW

Keeping Revenue Growth Profitable

DURING 1990 LUBBERS Resource Systems, a Grand Rapids waste-management company, grew from 300 to 1,000 customers and doubled its revenues. That should have been good news, but it produced a cash-flow catastrophe. CEO Karen Lubbers recalls, "When we signed up enough new accounts, we had to buy additional trucks and waste containers." Because margins are tight in the industry, recouping those heavy capital investments would take several years. What made matters worse, Lubbers could only depreciate her container expenditures over seven years, while she was able to extend her payments no longer than three years through supplier financing.

When the company ran out of cash, Lubbers realized she had to "analyze every prospective new account to make certain it would pay off for us in the bottom line."

Now, before signing up new business, Lubbers analyzes the total cost of servicing it, which includes the container price (roughly $100 per cubic yard) as well as prospective charges for financing, trucking, fuel, labor, repair and maintenance, insurance, and administrative overhead. Some unexpected factors turned up on her list. "Now we look at the geographic proximity of each prospective account to our existing client base. If we have to travel too far or haven't targeted a new customer's region for our expansion efforts, that often tips the cost scales."

She urges growing companies to analyze comprehensive costs before accepting any new business. Says Lubbers, "If you can't cover the costs of new business, walk away." *—J. A. F.*

INSURANCE

Hard-to-get Property-Casualty Coverage

FINDING AFFORDABLE PROPERTY-casualty insurance is difficult for all businesses these days. But the problem can seem insurmountable to companies that fall into hard-to-insure categories because they are start-ups or small ventures, or are domiciled in states with particularly tough insurance markets, such as Louisiana, Massachusetts, and New Jersey.

Paul Gregory, a New York City–based insurance broker turned consultant, recently set up shop in Baton Rouge, La., to help companies that either cannot find or cannot afford property-casualty coverage through the traditional method of working through an insurance broker. It's his response to a nationwide trend that's been forcing small businesses to, as he puts it, "either close down or move out of certain states."

Fortunately, small companies can aggressively take some steps on their own to avert massive rate hikes. Here's Gregory's advice:

- **Get involved in the underwriting process.** "I worked with a small trucking company based in Lafayette, La., that was facing a massive price increase," he recalls. "I explained to the chief executive that no insurance broker could understand his company as well as he did, so it was up to *him* to convince the insurance company that it was a good risk." The strategy worked: the CEO was able to tell his prospective insurer about a checklist of safety restrictions he had developed for his drivers, a new fleet-maintenance program, and various capital improvements. His insurer lowered the rate hike.
- **Stress your reputation.** Since start-ups have no loss record for insurers to rely on, Gregory advises CEOs to "sell prospective insurers on *their own credentials* within their industry." To do that, prepare a document that shows how long you've been working in the industry and details your own safety record (on everything from the products you've worked on to the cars you've driven). Then show the steps you've taken at your new company to *enhance* safety regulations. *—J. A. F.*

RESOURCE

Checking Insurer Safety

Finding affordable coverage (see "Hard-to-get Property-Casualty Coverage," above) isn't the only insurance problem companies face today. Here's an absolutely invaluable resource to help you conduct checkups on your insurer: a 23-page brochure, "How to Get Safety Information from Your Financial Institution," is available free from Weiss Research (800-289-9222), a West Palm Beach, Fla., organization well known for spotting problems at insurance companies and savings-and-loan associations.

The brochure includes perforated questionnaire cards to be mailed directly to insurers, bankers, and brokers. It also includes safety standards. (For insurers, Weiss looks for at least 50¢ worth of capital to cover every high-risk dollar.) *—J. A. F.*

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THE INC. 500: AMERICA'S FASTEST-GROWING PRIVATE COMPANIES

AAMP of America (33)
Abacus (55)
Abacus
ABA Personnel
2)
ABL Electronics
AccSys Technol
Achen-Gardner
Action Tempor
(184)
Active Voice (1
Administaff (16
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RESULTS FROM
JULY

The Inc. FaxPoll™

DO YOU HAVE A RIGHT TO KNOW?

Drug and alcohol abuse just isn't a big management issue for you. Most don't test for it. But whether or not you think you have the right to do so is a different matter.

50%

YES

DO YOU HAVE A WRITTEN SUBSTANCE-ABUSE POLICY?

NO

50%

The majority of respondents feel that drug and alcohol abuse is at worst a minor issue. Maybe that's why this poll received by far the fewest responses we've ever gotten. Could it be that many readers didn't think it was a big enough issue to even take the poll? The larger the company, the more likely it was to report a problem with drug and alcohol abuse. Not surprisingly, then, larger companies are also far more likely to have a written substance-abuse policy. Does that mean drug- and alcohol-related problems in smaller companies are almost nonexistent? Or are those companies just not aware of the problem? According to Carl King, CEO of Team Building Systems, a preemployment-screening company in Houston, small businesses, whether they know it or not, are just as likely to have problems as large ones. "Really small companies, like those with fewer than 10 employees, are for the most part hiring people they know, whether they're relatives or friends or friends of relatives or whatever. They think they're safe because they know everybody." But such businesses are just as likely to have employees with abuse problems. After all, says King, 12% of the work force is affected by substance abuse, according to the National Retail Merchants Association. "It's unlikely that these people are only in larger companies," he says.

HOW BIG A PROBLEM IS SUBSTANCE ABUSE IN YOUR COMPANY?	
Not at all	44%
Minor	45%
Significant	9%
Major	2%

Larger companies are more likely to test on a mandatory basis, whereas smaller companies are more likely to make it voluntary. Why do you test? To protect productivity: "Drugs affect job performance and the profitability of the company." And to ensure safety: for certain jobs "lives are at stake, so drug-related impairment is a vital issue." Also, there's the company's image to consider: "Since my workers' performance is a reflection on my reputation, I have the right to know about anything that could have an adverse effect." But not all who test feel comfortable with it: "Mandatory drug tests still give me a queasy feeling—but if random urine screens mean I have less to worry about, so be it."

DO YOU SCREEN YOUR EMPLOYEES FOR DRUG OR ALCOHOL USE?	
No	63%
Yes, on a mandatory basis	31%
Yes, on a voluntary basis	6%

Most employees admit the necessity of testing, but a substantial minority have a problem with it. One major mitigating factor is the presence of a written policy. Companies that screen but don't have a written policy were more likely to report that their employees objected to testing (41%, versus 8% of those with a formal policy). Perhaps the existence of a policy lets the employees know where the company stands, so there's less resistance to testing. According to Richard Chanick, president of VSP International, a personnel consulting firm in Phoenix, "A written policy can prevent resentment. If you don't have a policy, and then some drunken forklift driver crashes, and then you start with the drug and alcohol testing, that's when you're going to face real resistance. It's better to be consistent over time."

IF YOU SCREEN, HOW DO YOU THINK YOUR EMPLOYEES FEEL ABOUT IT?	
They comply willingly	53%
They resent it but understand that it's necessary	32%
They object to it	15%

WHICH OF THE FOLLOWING ADDITIONAL TESTS OR SCREENS DOES YOUR COMPANY USE?	
Reference checks (from résumés)	84%
Experience/skills screens	46%
Background checks	38%
Criminal-history checks	28%
Psychological/personality tests	19%
Integrity/honesty screens	17%
IQ tests	9%
Driving-record checks	4%

Regarding what you feel you have a right to know, your primary concern seems to be protecting your business and your investment. "I am paying employees a lot of money. I should be able to know what I'm buying." "I have an absolute right to know what my employees are doing." Even when they aren't at work? "If their playtime affects the business in a detrimental way, I have an obligation to deal with it appropriately." Others disagreed: "As long as they do their jobs, it's none of my damn business what they do on their own time." But where do you draw the line? According to Anne W. Lin[illegible]y, a lawyer with Productive Solutions, in Cleveland, specializing in personnel practices, "If there are things that don't directly relate to the job, you're better off not knowing them." In general, "you have to have a specific reason for wanting to know about employees' personal lives. If you don't, don't bother trying to find out."

—*Christopher Caggiano*

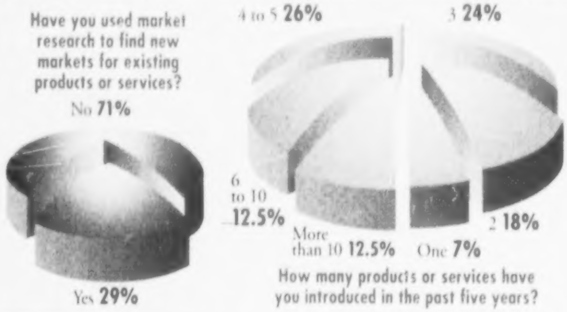
Note: Multiple responses account for total percentages above 100%.

THE INC. FAXPOLL™ IS SPONSORED BY XEROX

BENCHMARK

Are You Missing Out on New Markets?

Could market research turn up new niches for your products? The CEOs we surveyed indicated they are more likely to use market research to ***modify existing products and services*** *than to* ***find new markets*** *for their existing lines. Understandably, the CEOs also appeared to invest more time and money in their most recent products rather than in launching lots of new ones; 75% of the group said they'd introduced five or fewer products in the past five years.*



Source: Survey of 173 CEOs, 57% with sales of $10 million or less, by *Inc.* and The Executive Committee, San Diego, 1992.

PROSPECTING

Getting Big Companies to Call

SMALL COMPANIES OFTEN complain that it's difficult to reach decision makers in large corporations. But Stuart Herskovitz, founder and CEO of $1-million Qosina Corp., in Farmingdale, N.Y., penetrated the world's biggest cosmetics manufacturers and cultivated a new market without the benefit of a sales force.

It started with a walk through Macy's. Herskovitz, who for 12 years has manufactured plastic parts such as clamps and connectors for the medical market, took a detour through Macy's cosmetics department. He was amazed to see women trying on the same tube of lipstick. The health-conscious Herskovitz scented a waiting market for disposable plastic items. That was in 1986.

He went back to the office, stuffed envelopes with his catalog, price list, and assorted samples, and mailed them off to the CEOs of the country's largest cosmetics companies. Within a few weeks Herskovitz got a call from a vice-president of one of those companies. Converting those first qualified leads into sales, though, took about two years of "solid correspondence," attests Herskovitz, who continued to send catalogs and more product samples to *everyone* on his prospect list, regardless of who responded to his initial mailing. To induce more cosmetics companies to give him a call, a year ago he began mailing his catalog to some 500 cosmetics-counter chainstore executives.

Today Qosina's "Qosmedix" line of sponges, cotton swabs, and throwaway plastic applicators accounts for one-third of total sales, which are expected to reach $3 million in 1992. *—S. G.*

SALES TRAINING

A 'Finishing School' for Sales Reps

THE FASTER SALES GROW, THE easier it is for salespeople to get sloppy with the finishing touches. Oversights such as forgetting to supply a new customer with the correct forms or making an error in pricing can hurt any company's profitability. Global Mail Ltd., a $13-million deliverer of international mail (#35 on this year's *Inc.* 500), figures each "little" slipup costs it hundreds to thousands of dollars to fix. The 45-employee company, based in Sterling, Va., handles 75 tons of mail a month for more than 900 clients.

So before new sales hires train in the field, they spend one to three days each with the customer-service, accounting, operations, and telesales staffs. The new reps process bills, sort mail, and field customer calls. And they see firsthand how salespeople's paper snafus affect every department: "The first place they find out about a mistake is at the loading dock," says Glenn Cafritz, partner in charge of sales training. "Here's where they discover the 10-pound shipments coming to the dock at 300 pounds and the packages missing shipping forms altogether."

The final resting place for salespeople's mistakes is credit and collection. "I know if a company makes a mistake with me, I put the bill on the bottom of the pile," says CEO Harry Geller, who spot-checks many of the invoices and, with Cafritz, tutors new hires on the inner workings of the company, such as how Global Mail's system differs from the competition's, how deals are struck with overseas postmasters, and the company's pricing matrix.

The payoff: The four salespeople (out of a force of 11) who've been through the cross-training are more cautious about quoting lower rates or making unrealistic promises to a prospective client, says Cafritz. They also submit fewer "problem invoices" than the veteran salespeople. *—S. G.*

RESOURCES

Paying Your Sales Force

CEOs tell us one of their biggest headaches is figuring out the right way to pay their salespeople. Should you offer straight commission (the traditional choice of cash-strapped companies) or some combination of salary and commission? And what about bonus plans? Two new books geared to small, growing companies shed light on the process. Both are loaded with company examples, sample forms, and work sheets.

James F. Carey's *Complete Guide to Sales Force Compensation* (Business One Irwin, Homewood, Ill., 1992, $65) lays out the many shades of compensation in simple terms. It's also a handy resource to use if you want to revamp your pay scheme—from, say, paying commission "from booking" to commission "on billing." Also clearly explained are incentive formulas, from the popular "flat rate" to the less common "step-up."

Managing Sales for Business Growth, by Robert J. Calvin (AMACOM, New York City, 1991, $27.95), also serves up lots of helpful information on compensation, backed up by the latest statistics from leading sales journals and research houses. *—S. G.*

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

LEGAL BRIEF

Insurance for Employee Lawsuits

HERE'S AN ALARMING SIGN OF the times: a handful of insurance companies have decided to offer companies coverage against employee claims. The way Christine Cahill, assistant vice-president at Chubb in Warren, N.J., sees it, an increasingly litigious society, combined with a rapidly expanding body of law affecting the relationship between employers and employees, has created an urgent need for protection.

Chubb's product covers costs arising from past, present, or prospective employees' charges of wrongful termination, breach of employment contract, and other illegal practices. Other forms of insurance (general liability, umbrella coverage, and directors' and officers' insurance) may or may not protect you in an employee lawsuit.

Cahill says that the premiums for employment-practices liability insurance would be comparable with a company's directors' and officers' insurance premiums. Nearly all the large companies that have looked into Chubb's new product have been quoted six-figure annual premiums for coverage of up to $10 million. That's too expensive for many small companies, but Chubb will consider extending coverage at more reasonable rates to small and midsize companies that show financial stability and have a professional, sophisticated human-resource policy in place.

Consider the introduction of this insurance product as a giant warning sign: get your human-resources habits in good order. Chubb will send you a free 50-page booklet telling you how: *Employment Practices Loss Prevention* (Executive Protection Dept., Chubb and Son, 15 Mountain View Rd., Warren, NJ 07059). —*E. E. S.*

PRODUCTIVITY

Modernizing the Suggestion Box

IDEAS FROM WORKERS AT PEAK ELECTRONICS, AN ELECTRONics-fabricating company in Orange, Conn., run from the mundane to the sublime. E. J. Yancy, the company's president, credits such suggestions for some of the company's most significant cost-saving improvements. One idea allowed Peak to more than double its capacity to scrub circuit boards. Another provided a new way to code and track circuit boards long after they leave Peak's plant.

What makes Yancy's idea-generating system so productive is that he doesn't think of it as a conventional suggestion box; he treats it as a complete program. "I wanted people throughout the company to have a voice and a way to have their voice heard," he explains. Here are the key components of Peak's program:

- **Goal**: Yancy wants each of his 125 employees to contribute one idea per month. To stimulate them, he asks them all—assembly and office workers alike—to think about how they could improve their jobs by changing something within two arms' lengths of their work spot. When you've exhausted those possibilities, he tells employees, enlarge the area under review to include everything you can see in your department. Finally, he counsels, think about what improvements could be made outside your own department.
- **Fast Response**: Employees hand their suggestions to their manager. Managers have the authority to approve the change on the spot or pass it on to the plant manager or Yancy. Yancy promises an answer within 24 hours about what action will be taken.
- **Reward**: Early on, Yancy decided not to elevate some ideas over others by tagging them with a cost-saving "value" and rewarding employees accordingly. That would stifle people with modest suggestions. He does, however, reward with recognition. Each month two workers are named Thinker of the Month and given the two most convenient parking spots in the lot.
- **Reinforcement**: Yancy's desire to hear employees' voices is further emphasized by a 15-minute daily morning meeting. Both a manager and employees must be available to review the previous day's operations and prepare for the current day.

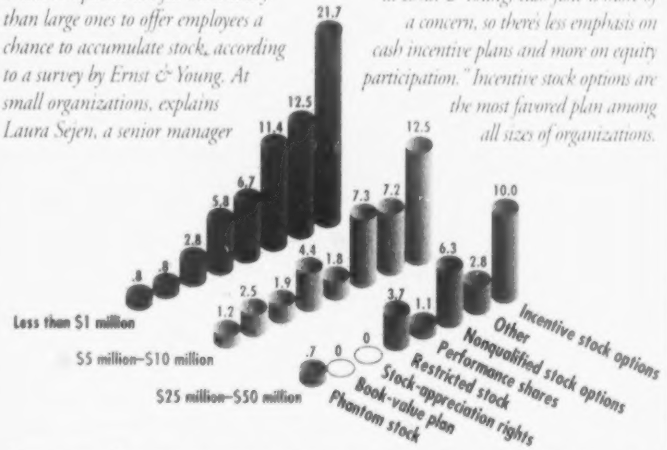
During the first year of Yancy's program, he learned some employees feared repercussions from their managers. They needed a way to communicate directly to Yancy. So he installed suggestion boxes in the most private place he could think of: the stalls in the rest rooms. What kind of anonymous suggestions come from those boxes? "Oh," says Yancy, "I get very rich stuff." —*E. E. S.*

The climb out of the ivory tower and onto the factory floor can be slow. Steven Zaimes, head of manufacturing at Phoenix Controls, in Newton, Mass., had a grand plan for empowering his 30 employees. He holds "town meetings," forums to draw out workers' cost-cutting ideas. Halfway into the first two-hour meeting, a worker finally asked, "Why do we have to make a profit?"

BENCHMARK

Taking Stock of the Company

Small companies are far more likely than large ones to offer employees a chance to accumulate stock, according to a survey by Ernst & Young. At small organizations, explains Laura Sejen, a senior manager at Ernst & Young, "cash flow is more of a concern, so there's less emphasis on cash incentive plans and more on equity participation." Incentive stock options are the most favored plan among all sizes of organizations.



Percentage of companies participating in each kind of plan, by 1990 sales size

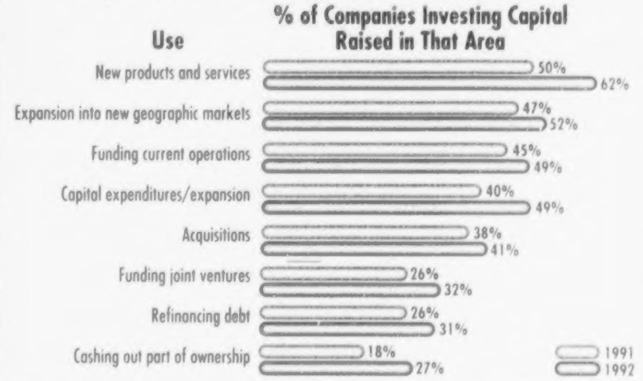
Source: Ernst & Young's 1992 Executive Compensation Middle Market Survey of companies with annual sales of less than $50 million, New York City.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

BENCHMARK

Why Companies Raise Money

Some lucky companies can generate all the money they need internally. But most businesses end up turning to outside sources to meet their needs. Where are growing companies investing the capital they're raising this year? A survey of 259 businesses (half with revenues less than $20 million) done by Ernst & Young last spring showed that many more companies are raising money and many businesses are using the money for multiple purposes. The most common uses are for developing new products and services, and expansion into new geographic areas.



Source: The Ernst & Young Entrepreneurial Services Group's annual survey of members of the Institute of American Entrepreneurs, Dallas, 1992.

CREDIT

Secured Bank Cards

IF YOU'VE BEEN TURNED down for a conventional credit card, don't despair. More and more banks are offering *secured* credit cards to people who want to establish or *re*establish good credit. To obtain a secured card, you must open a savings account with the bank or purchase a certificate of deposit; your credit limit will reflect the amount you deposit. Then, as you perform within your limit, the bank will raise your credit ceiling and eventually give you an unsecured line.

In the past many issuers of secured credit cards charged exorbitant interest rates and fees. But as more and larger banks have entered the market, the costs have become more competitive. Still, Gail Liberman, editor of "Bank Rate Monitor," a newsletter published in North Palm Beach, Fla., advises caution in choosing a bank. Stay away from institutions that advertise information lines with 900 numbers, she says, and make sure banks pay interest on security deposits.

Whereas secured cards are typically offered to individuals, American Pacific Bank, in Portland, Oreg., has recently introduced a corporate card. Companies can obtain up to four cards on the same account. A corporate card, moreover, may assist you in establishing business credit as distinct from your own.

For a list of reputable banks offering secured credit cards, contact Bankcard Holders of America (703-481-1110), a consumer group based in Herndon, Va.

—*Michael P. Cronin*

BORROWING

Financing Purchase Orders

WHAT DO YOU DO IF YOU HAVE CUSTOMERS READY TO order merchandise but your bankers won't give you the loans you need to purchase the inventory? You've hit your credit limit, your banker says, and your balance sheet and collateral won't justify more.

Fortunately, as David Engel, CEO of Trendsellers Ltd., has learned, there are niche players who make businesses out of lending money against purchase orders. Engel, whose tote- and travel-bag import company has revenues of around $3 million and is located in Stamford, Conn., has been financing orders that way since he launched his company, three years ago.

Because of the level of trade expertise and administrative support needed to make the deals work, not many deal makers get involved in purchase-order transactions (sometimes called "pre-inventory" financing). Those who do usually have industry preferences. (See table.) The deal structures, however, are often similar.

A business with a source for shoes from the Far East, for instance, might get a $100,000 purchase order from a large retailer. With the help of a purchase-order specialist, a letter of credit would be issued to the foreign manufacturer. To limit its risk, the financial company (as opposed to the client) might become the importer of record, and the shoes might go directly to the retailer's warehouse. As for payment, the financial company might ask the retailer to pay it directly or to send the money to a post-office box; all the transaction-related fees (for the letter of credit, transportation, insurance, interest, and any commissions) would be deducted before the import business gets what's left.

In contrast to traditional bank deals, companies and banks handling purchase-order deals tend to look more to the credit of the client's *customer* (often a retailer) than to that of the client. And they'll want to assess the foreign supplier's performance record on quality and meeting deadlines before putting themselves at risk.

This type of loan is usually more expensive than bank financing, but, as Engel of Trendsellers says, he receives not only money but expertise. "We get a lot of back-office support, without which we'd need to hire more people." —*B. G. P.*

▼ ▼ ▼

SOURCE	TYPICAL CLIENT	MINIMUM TRANSACTION	TYPE OF GOODS	PRICING
Trading Alliance 212-953-0400	Merchant, wholesaler, importer, or exporter	$75,000	Manufactured goods, nonperishables	1%–2.5% of cost of goods/month
Bristol Trade Finance 214-528-2888	Wholesaler or distributor	$25,000	Consumer goods, industrial products	Flat 2%–7%
Imperial International 213-965-6200	Wholesaler or distributor	$500,000/year	Nonperishables	Flat 6%–13%

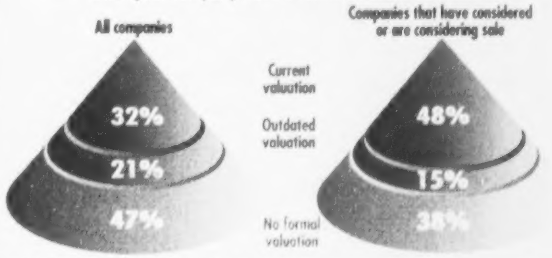
CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

BENCHMARK

What's Your Business Worth?

According to a recent survey by Coopers & Lybrand, most fast-growing companies don't bother to get or maintain current valuations. That can be a costly mistake, since owners need to know exactly what their businesses are worth when they're considering selling out—or relying on insurance policies to protect themselves against future estate-tax liabilities.

Does your company have a formal, current valuation?



Source: Coopers & Lybrand's Trendsetter Barometer, a survey of more than 200 growing companies with average revenues of $6.4 million, 1992.

ACQUISITIONS

How to Buy a Bankrupt Business

STEVE KATZ, CEO OF NATIONWIDE Cellular, a Valley Stream, N.Y., telecommunications company, has found an unusual—and low-cost—way to generate rapid growth: he buys bankrupt competitors. Consider Katz's most recently concluded deal, the acquisition of Cellcom, a bankrupt New Jersey–based company. Katz learned about the company through industry contacts—Cellcom's 53,000 cellular subscribers in the New York City and Los Angeles markets made it appealing—and approached its bankruptcy-court judge through a lawyer who specializes in Chapter 11 matters. "You'll never find a better deal than in bankruptcy court," Katz stresses, "because you've got the ultimate motivated seller." Here are some of his tips:

- **Hire a bankruptcy lawyer.** During the Cellcom negotiations, says Katz, he "had thousands of creditors and other interested parties to deal with." The negotiations with all those creditors required a specialist's legal finesse. Ultimately, some creditors agreed to large discounts in return for immediate payments, while others agreed to longer payment schedules in return for larger payments.
- **Move quickly.** The worst thing that can happen, Katz warns, is that you'll authorize your lawyer to submit a written bid to the court, pay a 5% or so deposit, and then sit and wait. Since all the creditor groups will have to approve the final settlement, Katz says, "you and your lawyer need to meet them quickly to size up their needs and financial flexibility. Then you'll have to convince the judge that your offer is a fair distribution if you want to close a deal quickly."

Katz should know. Nationwide Cellular made its bid for Cellcom on April 15, 1992; by May 23 the judge had proclaimed it a done deal. *—J. A. F.*

INSURANCE

Cost-managing Preexisting Medical Conditions

JEFF KINNI, CHAIRMAN OF PREFERRED MARKETING AGENTS, A Pompano Beach, Fla., manufacturers' representative serving the restaurant industry, has been losing sleep over an insurance nightmare. Comprising only five employees, Kinni's work force is not big enough to spread the cost risks that insurance companies calculate for a preexisting cancer case. "Our rates were rising by unbelievable amounts every six months," he complains, "30%, 60%, no end was in sight."

Under normal circumstances, Kinni's insurance broker might have solicited competitive bids from other carriers. But, says Kinni, "we had to stay with our carrier, because any new insurer would force us to accept a rider that would disallow all costs relating to preexisting conditions. So the person with cancer would suddenly wind up without protection."

Like the heads of other companies in this bind, Kinni was forced to respond first, by looking for every possible way to put a lid on current cost hikes. "We raised our deductible from $250 to $1,000 and cut back on maternity benefits," he says, "which kept our most recent increase down to 20%." Those changes weren't appealing, but Kinni viewed them as essential to keeping the company's health-insurance bill from driving him out of business.

Driving Down Health Care Costs (Panel Publishers, New York City, 1991, $89), a collection of 44 articles, is a simple way to tap into savvy strategies currently recommended by insurance and benefits practitioners to reduce insurance fraud, audit for cost savings, redesign retiree benefits, and more.

His second strategy focused on a longer-term solution that in the future might allow the company to broaden its scope of health benefits. "We'll demonstrate to insurers that it won't be excessively expensive for them to cover our company. When we've built up a good claims-loss record, we'll try to switch"—that is, just so long as Kinni can persuade an insurer to agree to a temporary, rather than permanent, moratorium on payments for preexisting conditions. "But once we demonstrate a pattern of controlled costs," he says, "that will be an option for us." *—J. A. F.*

RESOURCE

Retirement Calculator

Whether you're a business owner or an employee, the best way to figure out the importance of saving toward retirement is to calculate how much you'll need to stash away to retire in style. But don't get bogged down with your pocket calculator. Instead, order a retirement-savings calculator from T. Rowe Price (800-638-5660). This nifty cardboard gadget instantly answers such questions as "If I invest $100 a month in my 401(k) plan for 20 years, how much will I accumulate?" (Answer: $76,570 if your company's plan earns 10% interest.) It's free, it's fun, and it may even persuade you to bite the bullet and increase your retirement savings. —J. A. F.

CHART: ROSS CULBERT LAVERY & RUSSMAN INC., NEW YORK

THE 1992 INC. 500

Announcing *Inc.* magazine's 11th annual listing of the 500 fastest-growing private companies in America. Meet the companies that have been creating—not cutting—jobs over the past five years, the companies whose *minimum* growth rate has topped 600% during that time period. These are the exceptional companies, the growth leaders in an otherwise sluggish national economy.

BEHIND THE SCENES

An inside look at the companies creating jobs and wealth in a recessionary economy. Where did the founders get their seed capital? Who are their heroes? Which are the hot industries? And more

BY MARTHA E. MANGELSDORF

INC. 500

Partners in growth: Max Fuller (left) and Patrick Quinn

When it comes to entrepreneurial drive, Max Fuller sure doesn't have it. He never had any great desire to start a company—or even to buy one, for that matter. It was only outside circumstances that pushed him into starting his *Inc.* 500 company, U.S. Xpress (#445), located in Tunnel Hill, Ga. What Fuller thinks accounts most for his company's growth is not his niche, strategy, or hell-bent desire to succeed, but his talented managers and strong profit-sharing program. What's more, Fuller's partner and cofounder, Patrick Quinn, agrees entirely.

What's going on here? Profit sharing? Partnerships? A full-fledged management team? Is that any way to start a fast-growing company? What ever happened to the entrepreneur as Lone Ranger, the guy (and it almost always was a guy) who made things happen in his garage, thanks to an unshakable belief in a big-picture plan no critic in the world could touch?

We're not sure, but he seems to be a dying breed. In our survey of the 1992 *Inc.* 500, our annual list of the fastest-growing privately held companies in America, the theme can be summed up in one word: teamwork. The form of the team varies, but contrary to all the myths about going it alone, building a fast-growing company in the 1990s is clearly a group effort. Fifty-eight percent of 1992 *Inc.* 500 chief executives began with at least one partner. Three out of 10 work with a spouse. Thirty-five percent have an informal advisory board, and 33% have a formal board of directors. Less than a third of the CEOs still own all the stock in their companies, and 46% don't even have majority control. And, yes, almost half share profits and financial information (49% and 41%, respectively) with their employees.

Welcome to the 1992 *Inc.* 500. This is our 11th year of compiling the 500, and the qualification standards are daunting: the slowest-growing company on this year's list saw sales increase 606% over the past five years. Together the 500 accounted for $8.4 billion in revenues and 72,308 jobs in 1991—up from $530 million in sales and 8,221 in employees in 1987.

In effect, the *Inc.* 500 screens the nation's newest batch of growth companies—and highlights the ones off to the best start. Experience suggests that some of each year's crop will go on to build national reputations, while some will stagnate or die. Most, however, will grow into the successful private companies that are a mainstay of our economy.

In the following pages you'll find the shape of things to come. What industries are growing explosively? What management styles are producing dramatic results? What strategies? If you want to know what the company of the '90s and the early 21st century will look like, take a look at the 500.

Our survey results emphasize again and again that these are not traditional small businesses. Just ask Quinn and Fuller. They got their start working to-

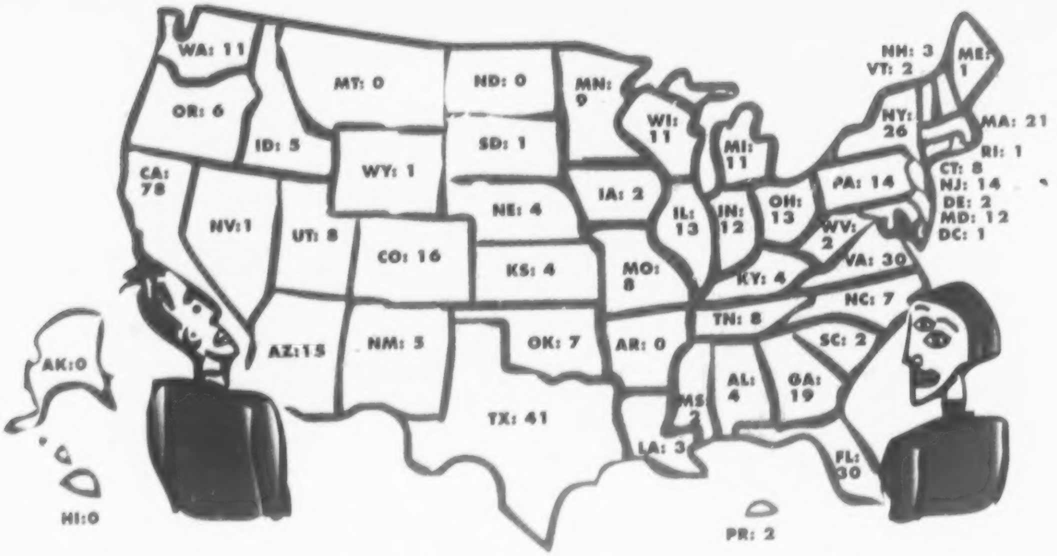
1992 INC. 500 COMPANIES STARTED WITH

$1,000 or less	**13.0%**
$1,001–$5,000	**12.6%**
$5,001–$10,000	**8.3%**
$10,001–$25,000	**13.3%**
$25,001–$50,000	**12.0%**
$50,001–$100,000	**15.6%**
$100,001–$500,000	**17.8%**
$500,001–$1 million	**2.8%**
$1,000,001–$2 million	**2.2%**
$2,000,001–$5 million	**1.3%**
More than $5 million	**1.1%**

Number of respondents: 460

PHOTOGRAPH LYNNE SILER

THE INC. 500 BY STATE



Very few long-term trends can be seen by comparing this year's map with those of previous years. About the most notable change is that a particular state or region will be depressed for a few years and then bounce back to normal. One example: In 1982 Texas and Oklahoma had 39 and 7 companies on the list, respectively. During the mid-1980s, when things got truly bad in both states, their 1987 totals dropped to a low of just 27 companies in Texas and one in Oklahoma. But by now things appear to be back to normal; the 1992 list has 41 Texas businesses and 7 Oklahoma companies. That should be encouraging to several New England and Rustbelt states (Massachusetts, New Hampshire, Rhode Island, Michigan, Illinois, Ohio, and Pennsylvania) that are currently at low points.

gether in an old-fashioned entrepreneurial business—one run by Fuller's father. What did they learn there? That—despite their great respect for the senior Fuller's accomplishments—they wanted to do things differently. "When I worked for my dad, he was the dictator," Fuller says. In contrast, Quinn and Fuller divide the company's management areas between them and rely heavily on their management team, which approves all major policy changes. The two founders see their management style and profit sharing as crucial in a world that has grown far too complicated for one businessperson alone to master. "I don't know how one person can remotely begin to be an expert in every business area," Quinn says.

Instead, by harnessing the power of its people, U.S. Xpress has grown to a profitable $142 million in sales in just seven years, and the company, which does long-haul trucking, is one of the top job generators on the *Inc.* 500. And in a fitting sign of the times, Fuller and Quinn have acquired Fuller's father's company. You could call it an entrepreneurial changing of the guard.

INC. 500 BY SIZE

Median number of employees	47.5
Average number of employees	144.6
Median 1991 sales	$6.7 million
Average 1991 sales	$16.8 million

1991 SALES

	% of companies
Less than $2 million	10.4%
$2 million–$2.9 million	14.8%
$3 million–$4.9 million	14.8%
$5 million–$9.9 million	23.6%
$10 million–$19.9 million	19.2%
$20 million–$29.9 million	6.4%
$30 million–$49.9 million	4.4%
$50 million–$74.9 million	2.2%
$75 million–$99.9 million	1.2%
$100 million–$149.9 million	1.6%
$150 million–$199.9 million	0.8%
$200 million or more	0.6%

THE START-UP MACHINE

Some people like to grow businesses. Then there are people like Gregory Squillante—who'd much rather just start them. Last time they counted, Squillante and his wife, Jo Ann, reported starting 16 businesses in southeastern Massachusetts and Rhode Island, of which he says 13 are still in business. The two big casualties—a computer demographics company and a fast-food restaurant—were both companies in which Squillante had invested a lot of money and high hopes. "I am very good at running small businesses. I am not very good at running big businesses," he admits.

Many small-business people would probably say the same, but what do you do if a business grows of its own accord? That's easy, according to Squillante: when a company reaches about 50 employees, he begins to look for a way to spin off some part of it and create a new company. All told, he estimates his 13 companies have about $10 million in revenues. In the process, Squillante has made the *Inc.* 500 not once but twice, with Diagnostic Testing, a medical laboratory, in 1987, and this year with S&S Management & Consulting (#372), based in Somerset, Mass. What is S&S's line of work? It provides management-consulting services to small-business owners. Somehow we're not surprised.

THE OLDEST COMPANY

Like many fledgling entrepreneurs, Mary-Clare and Michael Molony were sure they had a great new concept to bring to their market. Then, while

CHART J SCOTT CAMPBELL

shopping for a location in 1985, they came across a local business already using their hot idea. Worse yet, the business was 99 years old. Still worse, it was going out of business.

Michael Molony readily admits the whole thing made him just a little nervous: if the Molonys' idea—stores that sell nothing but pet foods and supplies—was so great, why was this other company, P. T. Moran Co., closing? On closer examination the couple learned the owners actually had devoted most of their space to garden supplies and wanted to get out for personal reasons. So instead of starting from scratch, the Molonys bought the P. T. Moran name along with some of its assets in 1986. With six stores operating under the P. T. Moran name, Pet Ventures (#220), based in Arlington, Va., sold $5.8 million in pet food and supplies in 1991 and is the oldest company on this year's *Inc.* 500. Says Michael Molony, "An old company that has a person's name on it tends to give people a warm, fuzzy feeling."

INC. 500 BY SECTOR

Service	**55.0%**
Manufacturing	**29.2%**
Distribution	**8.2%**
Retail	**7.6%**

INC. 500 BY INDUSTRY

Computers	**23.0%**
Consumer goods and services	**14.4%**
Business products and services	**12.4%**
Health care	**8.6%**
Real estate and construction	**6.4%**
Environmental products and services	**6.4%**
Industrial equipment	**4.4%**
Telecommunications	**2.8%**
Media	**1.8%**
Transportation	**1.8%**
Other	**18.0%**

THE LONGEST-RUNNING HIT

Back in 1988 many of this year's *Inc.* 500 CEOs were still getting started, building up those first big sales and hiring key staff. Not Gary Gale. His company—then known as Weathashade, now known as the Gale Group—was already #408 on the *Inc.* 500, with a five-year sales growth of 773%.

This year one-third of the companies made last year's list as well, but the $58.1-million Gale Group (#427), based in Winter Park, Fla., is the only one to make it for the fifth year in a row. After all, it's not easy to keep maintaining a five-year growth rate of more than 600%.

So how did Gale do it? No doubt by entering one of those exploding markets, like computer networking or environmental cleanup, right? Wrong. His company designs and makes gardening products such as garden covers and flowerpots—even Gale admits it's a "pretty sleepy industry." His approach: intense in-store merchandising and a commitment to new products. He says most of the company's new products were created abroad by someone else who needed help entering the U.S. market. That's an area in which Gale is a natural: he's a transplanted Australian who started his company as a way of bringing his family's business to the United States.

1991 PROFITABILITY

Profit margin*	% of companies
16% or more	**13.0%**
11%–15%	**12.2%**
6%–10%	**19.8%**
1%–5%	**44.0%**
Break-even	**2.8%**
Loss	**8.2%**

**Net income as a percentage of sales; S corporations use pretax figures.*

We admit we're baffled. The economy was in a shambles last year, but never before have so many *Inc.* 500 companies been so profitable. Fully 25.2% report 1991 profit margins of 11% or more—the decade's average is 18.2%.

We really don't have a solid explanation for this, but here's a theory. The only time we came close to seeing this kind of profitability was on the 1983 list, when we reported on profitability for 1982, also a difficult recession year. That suggests recessions somehow pay off for well-managed companies. Perhaps only the highly profitable can afford to grow in times when outside financing dries up; they may benefit even more when competitors with shakier finances can't effectively seize opportunities.

THE WORLD IS THEIR MARKET

At first glance, Russ Teubner may not seem typical of much of anything. After all, his *Inc.* 500 company, Teubner & Associates (#364), is a fast-growing high-tech business based in Stillwater, Okla. "A lot of the technology companies cluster in certain areas," Teubner admits gamely. "One of them is *not* Stillwater."

Nevertheless, Teubner & Associates exemplifies an interesting trend in this year's list. Like 51% of the companies on the list, Teubner & Associates makes more than half of its sales in a national and international marketplace. In that respect, these growth companies are dramatically different from ordinary small businesses. In general, when it comes to small businesses, "the vast majority are predominantly local," says Bruce Phillips, who directs the U.S. Small Business Administration's database on small companies. Growth companies apparently sense early on that the world is their marketplace: 74% of this year's *Inc.* 500 have some national sales, and 45% sell internationally. What's more, they are not just occasional exporters: half of the companies that report international sales say those sales account for at least 10% of their revenues.

Russ Teubner's global reach typifies the Inc. *500 company.*

How does a company with no track record gain the trust of national and international customers? Many CEOs rely on their contacts from previous jobs, but Teubner's only previous employer was Oklahoma State University. And in

PHOTOGRAPH ROBERT MERCER ILLUSTRATIONS J. SCOTT CAMPBELL

THEIR TOP 10 HEREOS

Either these are not heroic times, or the *Inc.* 500 are just not a group inclined to look to others for inspiration—120 are heroless. We did feel a little sad when one CEO told us he had "none left." When the CEOs did choose heroes outside their immediate families, they tended to look to successful entrepreneurs, people who could be role models for their business lives.

My father	**13.8%**
H. Ross Perot	**5.7%**
Sam Walton	**3.9%**
Lee Iacocca	**3.4%**
Bill Gates	**3.0%**
Winston Churchill	**2.8%**
Abraham Lincoln	**2.3%**
Jesus	**2.1%**
My grandfather	**1.6%**
John Wayne	**1.4%**

Number of respondents: 435

his case, the problem was exacerbated by his location and his potential marketplace—only very large organizations have the type of mainframes that can use Teubner's flagship software product.

So Teubner initially concentrated on what he calls "the desperate few"—those companies that would have such a strong need for his product that they would be willing to risk doing business with him. As quickly as he could, however, Teubner got distributors to sell his product across the country; today 83% of the company's sales are national and the rest are international. "It's rather foolish to think you're going to take the *Fortune* 1,000 by storm from Stillwater," he says. The company's entry into the global marketplace was uneventful, according to Teubner. "Someone called up from Switzerland and said, 'Will you sell us your product?' "

Now that Datastorm is a $17-million company, former musicians (from top) Tom Smith, Stephen Monaco, and Bruce Barkelew have quit their night job.

WHO NEEDS SEED CAPITAL?

It sounds like the title of a sleazy get-rich quick book: *How to Start a Growth Company with No Money Down.* But that's exactly what Bruce Barkelew and Thomas Smith did. They started Datastorm Technologies (#376), in Columbia, Mo., with, they say, absolutely no seed capital.

Unfortunately, what Smith and Barkelew did can't be replicated in most industries. The two, computer-science graduates who'd designed a software product in their spare time, decided to distribute their product through "shareware." That means they placed their software on a number of electronic bulletin boards and encouraged users to try it

DID YOU KNOW THAT . . .

- Women may be starting more businesses than ever, but by and large, they are not starting the high-growth companies that make the *Inc.* 500. The number of *Inc.* 500 companies with women as CEOs has been increasing gradually, but even so, only 8% of the companies on the list have female chief executives. Almost one-third of the companies, however, involve husband-and-wife teams.
- Only 14.6% of the *Inc.* 500 report any acquisitions; the rest have generated all their growth internally.
- Forty-five percent of the *Inc.* 500 CEOs describe their companies as high-tech businesses, and 58.6% say their use of technology gives them a competitive advantage.
- One out of every five *Inc.* 500 companies has at least one employee who works primarily at home, using the computer and the telephone to stay in touch.

- Public accounting firms aren't just for public companies anymore. While most *Inc.* 500 companies use small, local accounting firms, about one-fourth use one of the Big Six.
- *Inc.* 500 companies are almost twice as likely to have employee stock ownership plans as to have unions (6.5% have ESOPs, while only 3.8% have unions).
- Half of the list's CEOs had started at least one other business before founding their *Inc.* 500 company.
- The majority of *Inc.* 500 companies still choose the traditional C-corporation status, but a large minority (43.8%) prefer the tax advantages of S corporations.
- The average *Inc.* 500 CEO is 50 years old and works 63 hours a week. Seventy percent have worked for large companies, and 60% for other small companies.
- Although the *Inc.* 500 companies are on average only 8 years old, 22% of the CEOs say they run family businesses.
- One out of three *Inc.* 500 companies has a strategic alliance with a large company. High-tech companies are more likely than others to have partners, and the three most common partners were, in order, IBM, Apple, and Digital.

- Despite the growth of their companies, many *Inc.* 500 CEOs are still enmeshed in their original role as chief salesperson. When asked to describe a typical workweek, the average *Inc.* 500 CEO reported spending 27% of the week on sales and marketing—far more than on any other management area. Tracking the competition, for example, gets only 5% of the average *Inc.* 500 CEO's time.

PHOTOGRAPH: ROBERT MERCER

out. Each time people used the product, a note would flash on their screens, reminding them to send a check to Datastorm.

That's not exactly a strong-arm collection technique—Smith guesses that somewhere from 3% to 8% of regular users eventually bought the software. Still, shareware has enabled Smith and Barkelew (who were later joined by Stephen Monaco) to build a $17.8-million company, which now has retail distribution as well.

The duo are not alone. Seed-capital requirements for the *Inc.* 500 vary widely, but an astonishing 26% of this year's companies were started with $5,000 or less. And they represent a wide range of industries—from mail-order catalogs to computer-peripherals manufacturing to sandal making to pizza. While some companies did require much, much more—the highest initial capital reported was $31 million—the median *Inc.* 500 company raised $30,000.

That suggests starting a growth company is not financially beyond the means of most people. U.S. government data bear that out; according to the Census Bureau's 1987 survey of business owners, more than half of all small businesses are started with less than $5,000; however, many of those remain one-person operations. It's far more surprising that so many companies grow so rapidly from such humble beginnings. There's no better example than Jim Allsup, sole owner of Allsup Inc. (#363), a $6-million company in Belleville, Ill., that provides health-care-claims services. Allsup started his company in 1984 with a few hundred dollars—from his unemployment checks.

SIGN OF THE TIMES

The last five years haven't been the best of times for the banking industry—or most financial services. But don't tell that to Ric Tomlinson. From 1987 to 1991, his company, Univest Financial Group (#450), grew from $2.1 million to $16.5 million in sales, even though the Marietta, Ga., company's business is analyzing mortgages—both residential and commercial. What's the secret?

Timing. Ric Tomlinson and his partners developed a sophisticated database designed to value loans in the portfolios of savings-and-loan institutions. What he didn't count on was the S&L crisis, which suddenly gave the federal government a great need to value huge numbers of loans from failed institutions. "We created a product prior to one of the greatest financial crises in the history of our country," he says. "A lot of this has to do with timing and luck."

SOURCES OF SEED CAPITAL

Personal savings	78.5%
Bank loans	14.3%
Family members	12.9%
Employees/partners	12.4%
Friends	9.0%
Venture capital	6.3%
Mortgaged property	4.0%
Government-guaranteed loans	1.1%
Other	3.4%

Just for the record: Tomlinson didn't always think his timing and luck were so good. Early on, Univest took on some work valuing loans for an S&L that was, well, a little iffy. When Univest was almost finished with the project, the federal regulators seized the S&L, leaving Tomlinson with a sunken investment, no prepayment, and no customer. But because Univest had already valued most of the portfolio, Tomlinson had the evidence and motivation to convince the regulator that Univest could sell the portfolio for more than the government thought it was worth. From that starting point, Tomlinson reports, today 65% of Univest's sales are to the federal government. That's a pretty good return on a bad debt! ❑

EVEN THEY EAT HUMBLE PIE

"Time for one more mistake"

For all the praise we shower on the *Inc.* 500, these folks are just as fallible as the rest of us. So this year we made a point of asking about their worst or most humbling business experience. Many were what you'd expect: the wrong partner, the wrong hire, the failed product, the bad bank, and the nonpaying customer. But here are a few of the more candid and unusual admissions, with the names omitted to protect the innocent. Or the guilty, depending on how you look at it.

- I was in a briefing at the Pentagon—a very formal environment. When I got through with the briefing, one of the military people came up and told me to zip my fly up.
- I hired my ex-husband.
- When I started, I had a business plan that was meaningless eyewash. We floundered for five years before starting all over.
- We thought we were recession-proof.
- We faxed information about a business deal to the wrong potential partner in Italy.
- Twenty percent of our customers went bankrupt last year.
- On my first big sale, I lost the check—for $100,000. I was embarrassed to go back to the customer. I finally found it a week later in a book that I was reading.

- The CEO we're most worried about? The one who said his worst mistake was "getting into business." And the prize for the most honesty has to go to the entrepreneur who replied simply, "We make mistakes on an hourly basis."

BUILT ON SPEED

Kingston Technology shot up to $230 million in sales and the top spot on the 500 with no debt and no outside equity. How? By getting ideas into production and getting product out the door faster than anyone else

BY EDWARD O. WELLES

INC. 500

DAVID SUN IS A HARD MAN TO TRACK DOWN. One moment he is at his desk in the midst of a room of salespeople. The next he is striding through the shipping department, before heading upstairs for a brief but intent conversation with an engineer. The best place to stake him out is in the cafeteria, where sooner or later he is sure to show up for a smoke and some banter with whoever happens to be around. Equal parts ebullience and energy, Sun creates the impression of speed in his daily hands-on whirl around Kingston Technology Corp., located in Fountain Valley, Calif.

That is apt. Kingston is built on speed, and it is that characteristic that has helped the company break well out of the pack and taken it to the top of this year's *Inc.* 500. Kingston designs and manufactures memory, processor, and storage upgrades for personal computers, laptops, laser printers, and workstations. In that cutthroat world, manufacturers crank out stripped-down, underpowered, low-cost machines that produce profits as marginal as the machines' performance. The real money is made on product upgrades, much the way car manufacturers cash in on the plethora of options that inevitably add the shock to the sticker price.

Enter Kingston. As brand-name machines roll out the door at the likes of IBM, Compaq, and AST, little-known Kingston sprints to design the upgrades that will turbocharge those stock machines with added memory and processing power so they can handle the latest hot and powerful piece of software hitting the market. Kingston moves with such speed that it can often design and produce the upgrade for a product before that product is even in the hands of the end-user. (Kingston's customers are distributors and resellers of computer equipment. For the most part, it does not sell direct to end-users.)

Kingston was founded in 1987, the result of creative engineering's meeting the fast-changing needs of an explosive market. That year there occurred a shortage of a certain type of chip used in memory-upgrade modules. Sun and his cofounder, John Tu, realized they could alter another chip in ample supply to produce a similar product. Suddenly, memory-starved distributors were beating a path to Kingston's door. "This was like gold at the time," recalls Tu. "People were offering to pay us in cash." But Tu figured it wouldn't be long before competitors caught on to what he and Sun had done and simply copied their feat. He bet Sun a Jaguar that Kingston would be out of business within the year.

Sun won a new set of wheels, and in 1988 Kingston's sales leapt to more than $12 million. By then the PC market was bursting with manufacturers starting to produce computers that ran on their own proprietary systems. Thus, each required its own unique memory upgrade, and Kingston's market expanded exponentially. Then in 1990 Microsoft introduced its wildly popular Windows 3.0, a program requiring more memory than was then available with off-the-shelf PCs. Kingston stepped in to provide the necessary additional memory. In recent years the same thing has happened in the memory-intensive workstation market. A year ago the company created a division to address that market. It already accounts for 10% of sales.

Last year sales rocketed to $141 million, and this year Kingston, with just 130 employees, is on track to reach $230 million in revenues. That works out to almost $1.8 million per employee. The company has no debt, no venture capital, and no plans to go public. And still it keeps piling up cash in quantities that verge on the embarrassing. It distributes 5% of pretax profits quarterly as a bonus to full-time employees, which came to $400,000 in the latest quarter. It also matches employee contributions to the 401(k) plan dollar for dollar up to a combined total of $6,000 a year. Today Kingston, which competes with about

PHOTOGRAPHS: BOB HOLMGREN

15 other companies, commands a 45% share of the memory-upgrade market, and it shows no signs of slowing down.

So how exactly does Kingston do it?

KINGSTON HAS INSTITUTIONALized speed at every level. David Sun, 41, and John Tu, 51, are quick, intuitive thinkers who've been known to decide to build a product on the 30-second walk between the parking lot and Kingston's front door. Their hit rate—the ratio of successful products to product introductions—is 90%, a phenomenally high number given the fast-changing world of personal computing.

Sun, a 10-year veteran of the PC industry, thrives on vibes. His desk sits out in a bull pen in the center of the sales department. Kingston's distributors call in daily from all over the world, placing orders, asking when the latest product will be out. (International sales account for 39% of revenues.) When the salespeople start hearing often enough that distributors are looking for a certain upgrade on a certain machine, and Kingston doesn't have it, that is often signal enough for Sun to decide to build that product. From there, it can take as little as *one week* before the product is ready to ship.

Kingston fills all purchase orders the day it receives them. That is unheard of in the high-volume, thin-margin, commodity-oriented world of PC manufacturing, where typically PC producers stockpile orders, shop around for dirt-cheap inventory, and then ship a ton of products every four to six weeks.

That kind of pace conflicts with the needs of end-users, who always want their upgrades yesterday. As a result, many original equipment manufacturers, unable to meet the needs of their customers in a timely way, simply refer people to Kingston, which can.

ALTHOUGH SPEED IS A STRONG, DEfinable attribute at Kingston, it is not to be confused with the company's core values. A suggestion of those can be found on a small plaque inside the front door in the lobby, which reads, "Courtesy . . . Compassion . . . Modesty . . . Honesty."

The embodiment of those values is John Tu, Sun's partner. The two have worked together since 1983, when they started a company, later sold to AST, to provide memory upgrades for Digital products. Tu, amiable and soft-spoken, focuses on sales and marketing, while Sun worries about engineering. But ask Tu what preys on his mind most, and he'll tell you it's a sense of obligation to his employees. "Suppose the company stops growing tomorrow," he muses. "We want to make sure our employees will not be hurt." Sun adds that Kingston is managed so conservatively that should it go out of business tomorrow, it wants to have enough money to distribute a year's salary to every employee to give each time to find another job.

The atmosphere at Kingston implies *fluidity*. No doors, no ties, no titles, no secretaries. No memos, no supervisors. No quality standards, points out David Sun, because quality comes built in. The company tests 100% of its parts before they ship, whereas the industry standard is 5%. "There are times when I've been over there, and I've seen David sweeping the floor," notes Al Soni, who represents Samsung, a major Kingston vendor. "He relates to his employees at their level—always."

Technicians test 100% of Kingston's parts before shipping, compared with an industry standard of 5%.

Janet Ruprecht, who works in marketing, describes Kingston employees as "people you would not expect taking responsibility for things you'd think they wouldn't notice." They range from engineers breaking from their mind work and wandering down to shipping to pack boxes for a while to shippers walking into the sales department, after talking to people in accounting, to report that certain distributors have fallen behind in their payments.

Ruprecht's sister Carol, who works in sales, recently got a call from a customer in Belgium who wanted to know if Kingston could produce a special modification of one of its products. Ruprecht hung up and called engineering. Engineering said OK, provided production could handle the alteration. Production assented, and 10 minutes later Ruprecht called back the customer to say Kingston could produce the part. She also recalls a rare slow day when production employees with nothing better to do decided to dismantle one of Kingston's fax machines to see if maybe they should be thinking about building add-on memory for *it*.

Kingston pays its employees salaries that are 20% to 30% above industry norms. It pays no commissions to its salespeople, believing that their success would not be possible without the group's efforts. Its bonuses are paid out in equal shares, not pegged to salary level, because Sun reasons that the bonus is a reflection of "how the company is doing," whereas salary "is what you know."

Kingston invests in engineering talent. Orange County brims with a surplus of free-lance engineers, yet the company assiduously has built an engineering staff, largely through Sun's and Tu's contacts in the industry. Both have a decided bias against credentials, and as a result, Kingston's two best "engineers" lack degrees but have a wealth of experience as technicians.

Paul Popadak is one of them. Recently, he spent six months designing a complex upgrade that allowed Kingston to become the only aftermarket company to reverse-engineer a board with an application-specific integrated circuit (an ASIC is a custom chip designed to take the place of many smaller and less complex chips).

KINGSTON'S INVENTORY TAKES UP four rows of shelves, each running about 20 feet deep, creating the impression that David Sun and John Tu run a midsize auto-parts store, not a $141-million company that ships computer add-on components around the world. That inventory amounts to four days' worth of parts.

Such a lean inventory in the volatile computer aftermarket leaves little room for error. Memory chips, the heart and soul of Kingston products, are notoriously commodity-like in nature. Prices soar and collapse with little notice. If there is a hallmark to the industry, it is that the prime loyalty is to price and today's deal. Manufacturers persistently shop around among vendors. They cancel purchase orders when the market suddenly shifts. They drag their heels on paying bills.

Kingston's lean inventory thus appears against the backdrop of a chaotic market as a high-tech, high-wire act. But Sun and Tu have a safety net beneath them, woven taut and true by their vendors. In their hierarchy of important people, Sun and Tu place employees first, followed closely by vendors. They believe that if you treat those two groups well, then they in turn will see to the care and feeding of the third vital group—customers.

"Integrity. That's how I'd sum up Kingston in a word," says Ken Hurley of Hitachi America, one of Kingston's key vendors. "We have a strong partnership with Kingston. We don't share that with a lot of its competitors."

"If David gives me his word, I can take it to the bank," echoes Mike Burns at Motorola, who labels Kingston "my top account"—in terms not only of volume but also of psychic ease. Burns makes no commission on the commodity chips he sells to Kingston but says, "I spend 40% of my time supporting this account, because it's so pleasurable to do business with them. I've been doing this for 15 years, and I have yet to meet a company that's more fun to work with."

From the start, Sun and Tu set out to establish long-term relationships with vendors, believing that is the best way to impart ballast to a business in a tempestuous industry. "We will deal with a vendor only as a long-term partner," says Sun. Kingston has never canceled a purchase order. It always works with vendors to schedule the manufacture and delivery of chips and has never backed off that schedule. It does not grind suppliers down on price, preferring to get a consistent supply and quality. In the case of smaller, undercapitalized suppliers, Kingston often prepays.

Sun says, "People in this industry tend to be greedy because the money turns so fast." He adds that not paying bills on time in order to earn a little extra interest at the expense of a creditor makes no sense whatsoever. "For a fraction of a percent you suddenly become an unethical person."

"Other customers play games and delay payments," says Al Soni of Samsung. "Because of Kingston's relationships, it's able to get hard-to-get parts before everyone else does." In turn, strong relationships with vendors allow Kingston to focus on things that really matter. "A lot of their competitors shop around all over the world. They spend all their energy on price," continues Soni. "Sun and Tu get a good price from us, good support, and consistent supply. As a result, they're able to spend more time on things that make a difference, like developing their sales and marketing channels."

Soni says Kingston has "established a new trend" for its industry by booking an order, building the product, and shipping it the same day. It is a process competitors will be forced to follow, and it is one that pays customers a considerable dividend: they don't have to carry any inventory.

One Kingston customer, Ingram Micro, based in nearby Santa Ana, sells more than $1.5 billion worth of computer equipment annually. It receives *two shipments a day* from Kingston. Another customer, Gates F/A, based in Greenville, S.C., places orders with Kingston nightly—and has the product in its Ohio warehouse the next day. Jerry Lumpkin at Gates F/A says Kingston's name is synonymous with both product quality and being first to market. If Kingston can't produce it, then likely no one else can. "Sometimes we hear from other vendors, 'Even Kingston doesn't have it.' Kingston provides a benchmark for other companies to measure themselves against."

Kingston supports its distributors by drop-shipping direct to end-users when necessary. It immediately replaces defective products, no questions asked, without waiting for returns. Similarly, Kingston pours a lot of resources into technical support, knowing it will be called on to answer questions about other manufacturers' equipment that has been integrated with its own.

John Tu sums up Kingston's strategy simply: "We want to make it so the customer can't afford *not* to do business with us." David Sun echoes the sentiment, arguing that Kingston's just-in-time bend-over-backwards way of doing business does more than create goodwill. It makes good sense. "If we ship the same day, then there are no back orders. They create extra work. We say instead, 'We'll support you. We'll ship to you every day.' The distributor is not forced to take a lot of product all at one time." As a result, Sun emphasizes, should the market suddenly fall apart, the distributor is not put in the position of having to take delivery on thousands of units previously committed to and no longer wanted. That reduces the risk of weakening the relationship between Kingston and its customers.

Kingston and its vendors in effect hold the customers' inventory. "We are sitting here as a broker of services from our employees and vendors to our customers," says Sun. Kingston not only eliminates the cost and hassle of inventory for its customers but offers a wide array of products. Moreover, because of its favored status with strong vendors, it is virtually assured of having new products first. To Kingston customers, that translates into relative scarcity of those products—and, accordingly, higher margins before the market becomes flooded.

In the meantime, Kingston's founders act as though the company could end tomorrow—and even take great pains to talk down its success. Tu has been a persistent worrier since day one, figuring the company would be out of business within six months of start-up, as soon as competitors caught on to it. Sitting in his office one recent day, Tu held the simple memory chip upon which Kingston built its early success. "This is like making chocolate-chip cookies. This is really stupid," he said, shaking his head and noting there was nothing revolutionary at all about the device. "I never imagined we would get *this* far."

Mike Burns of Motorola predicts Kingston will hardly be a flash in the pan. Not only has the company redefined the way its industry does business, it's also pushing into new niches with entrepreneurial flair. Not only has Kingston gotten into building upgrade products for workstations, it has also delved into processor, graphics, and network cards, and recently invested in a nearby company that manufactures laser printers. It has also embarked on a joint venture to market its products through a chain of superstores, believing that type of outlet to be the wave of the future.

Kingston has always been quick to spot a trend in the computer marketplace and jump on it. With PC manufacturers at war with one another, introducing better and cheaper products at a faster and faster rate, it appears that—despite Tu's worries—Kingston's market is not about to dry up anytime soon. ❏

HOW TO LAUNCH AN INC. 500 COMPANY

What many booming businesses have in common isn't sorcery, it's a simple strategic idea—an idea, in fact, that's as applicable to start-ups and strugglers as it is to fast-track money-makers

BY JOHN CASE

INC. 500

BUSINESS FANTASIES? TRY THESE ON FOR SIZE:

Dennis and Ann Pence leave high-powered careers in New York City for the wilds of northern Idaho. They start a catalog company selling nature-oriented gifts. Its success is startling: $11 million in revenues last year, an estimated $20 million this year. Profits hover around 16%.

Gary Gagliardi, a Seattle software consultant, begins to create and sell accounting programs for businesses. The marketplace is teeming with competitors, but Gagliardi's new company shoots to the top, displacing the industry leader. Before long, big customers such as Marriott Corp. are placing orders. Sales for fiscal 1991: $5 million, with profits in the 6%-to-10% range.

Max Duncan loses his job as a drilling engineer; he is one more casualty of the mid-1980s slump in South Texas oil. Duncan gives the energy business one last shot, starting a company to make specialty chemicals for drillers. Incredibly—because better-established companies are scrambling to get out of this market—he strikes pay dirt. Last year Duncan's company topped $6 million in sales.

At times, we realize, such stories can be the curse of an entrepreneur's life. There they are, lionized in the local newspaper or the chamber-of-commerce quarterly or *Inc.*, men and women with the Midas touch, magically creating gilt-edged companies and effortlessly slaying competitors. You can almost hear the envious reaction from less favored CEOs. *What wizardry do they know that I don't?* Or maybe just: *How did they get so lucky?* When you're mired in the muck of last month's ledgers and next month's projections, the gap between fantasy and reality can loom large.

And yet the plain fact about many booming businesses is that they aren't magical at all. What they have in common isn't sorcery, it's a simple strategic idea—an idea, moreover, that's as applicable to start-ups and strugglers as it is to fast-track money-makers.

The idea begins with a simpleminded observation. Every company faces competition. Other businesses, some of them larger and better financed than yours, can always duplicate or imitate your offerings, can match you dollar for dollar in marketing, can hire as many people.

But successful CEOs invariably choose something, one key element of the business, that can provide their companies with an edge no competitor can easily match. Management theorist Michel Robert calls it the organization's "strategic heartbeat"; in simplest terms, it's the skills and systems that the company is built around, and that it knows better than anyone else. Robert's book *The Strategist CEO* mentions several big-company examples. At Johnson & Johnson, the strategic heartbeat is the company's singleminded focus on four—and only four—sets of consumers (doctors, nurses, patients, and mothers). At Sony, it's the company's unparalleled proficiency at research and development, which provides a constant stream of new products. Whatever that strategic center may be, says Robert, the most successful enterprises set their priorities around it and pour resources into it, thereby developing knowledge and capabilities competitors simply don't have. That's how they stay ahead of the pack.

As several examples culled from this year's *Inc.* 500 show, that is a lesson not limited to corporate giants. On the contrary: a lot of small companies have learned it so well that their success can seem truly fantastic.

Competitive Edge: Making Buying Easy

WHEN THEY LEFT NEW YORK CITY TO SET UP COLDWATER Creek Inc. (#71), in Sandpoint, Idaho, Dennis and Ann Pence began developing a network of small crafts manufacturers that could provide them with unusual gift items, such as tiny jade wolves howling at the moon. They placed a few ads; they designed their catalog; they began compiling

ILLUSTRATION TOMEK OLBINSKI

a list of mail-order customers. So far, nothing any other savvy marketer with a good eye for crafts couldn't do.

But in the Pences' minds there was one key to a mail-order company's success. Call it the place where customer meets company: it includes everything from the day someone gets Coldwater Creek's catalog to the day she (most customers are women) receives an item she ordered. Carry out every step in the process better than anyone else does, the founders figured, and the buying decision will be so pleasant and simple that customers will keep coming back for more.

Today that strategic focus is visible in how the company directs its resources and develops its skills.

The catalog uses top-of-the-line photography, color separation, and paper: "We spend much more money than any cataloger our size I know," says Dennis. Result: colors are more accurately rendered, the items more precisely portrayed. Thanks in part to this authenticity, Coldwater Creek's merchandise returns are about 3.5%, a little more than half the gift-industry average.

Incoming calls are answered in an average of three seconds. The company makes sure there are always enough operators on duty to meet that standard, even if some are sitting around waiting for the phone to ring. The carefully tracked abandoned-call rate runs from 0.2% to 0.3%, compared with an industry average of 3% to 5%. Says Dennis: "We're saying, 'You're going to let one out of 20 potential customers walk? It's insane.' "

Orders are processed immediately; 90% go out the same day, virtually all within 24 hours. Seeking to reduce order-fulfillment errors—wrong items, wrong quantities, and so on—a team of employees identified 16 sources of error and created systems to prevent them. Today the company registers a 0.2% fulfillment-error rate, which is about one-fifth the industry average.

Central to all those efforts is Coldwater Creek's high-powered computer system: a new Hewlett-Packard 3000/967 minicomputer; the personal computers and other hardware that are plugged into it; and the fourth-generation catalog-company software, both more powerful and more flexible than earlier programs. The "heavy-duty iron," as Dennis describes it, lets the company focus on minute details of interaction with the customer. A simple bit of programming, for instance, prevents company shippers from sending packages via United Parcel Service to a post-office box; earlier, that logistical impossibility had been a common source of delays. Custom-designed curves allow Coldwater Creek's buyers to plot potential sales of dozens of items after only a week or two of incoming orders. They can then schedule monthly shipments from suppliers, reducing back orders while still holding down inventory costs.

As for pouring in resources, the Hewlett-Packard and other recent improvements to the computer system cost Coldwater Creek more than $1 million over the past 24 months. "That's a lot of computer for a company our size," says Dennis. "But we need the ability to use this kind of information, to have it at our fingertips, even more than a large retailer does. It provides us with a competitive advantage."

Competitive Edge: Fast Product Development

FOURGEN SOFTWARE (#465 THIS YEAR, #146 LAST YEAR), BASED in Edmonds, Wash., began selling accounting software to small and midsize businesses several years ago. Its product had an initial advantage over the competition's: it was more easily adaptable to a business's individual needs. ("Modifiability by Design" was the company's slogan.) In software, however, a technical lead can vanish quickly. What gives FourGen its edge today—it is still the fastest-growing company in its industry—is its relentless focus on product development. New versions of its software have allowed it not only to stay ahead of the market but also to move into lucrative new niches, such as providing systems to large corporations.

Achieving rapid innovation meant training every employee to think like an owner—to plan work around long-term objectives, to root out problems at their source.

Accounting-software companies typically release enhanced versions of their products every 18 months or so. FourGen has collapsed that cycle to 3 months. Four times a year it releases new products. At different points, but at roughly the same interval, it releases "bug fixed" editions of existing products. "We're six to eight times more productive than other software companies in terms of being able to improve the product," claims cofounder and CEO Gary Gagliardi. "That's what has allowed us in one year to go from products aimed at small to medium businesses to a corporate product."

To reach that level of rapid innovation, Gagliardi essentially has had to reinvent—and keep reinventing—the company's operations, pouring resources into training and restructuring and internal communication. Step one was to scrap the old method of software production, in which programs moved sequentially from research to development to production. Step two was to create self-directed work teams capable of developing products from start to finish in a small fraction of the usual time. To Gagliardi that meant training every employee to think like an owner—to plan work around long-term objectives, to root out problems and bottlenecks at their source, to coordinate by staying in constant touch with others doing relevant tasks. Over a period of three months Gagliardi met with everyone in the company for an intensive series of small-group training sessions. He imparted both that philosophy and the skills, such as statistical analysis of output, that he saw as critical to its implementation.

Implementing the new approach has been neither cheap nor easy. Employees must spend from 5% to 30% of their time—up to two or three hours a day—reading and responding to the inevitable flood of electronic-mail messages. Group leaders must lead by consensus, often a time-consuming process. Training continues, in areas such as consensual decision making and internal communication. Even so, the payoffs have been remarkable. Automatic testing programs have been developed, shortening the time required for finding and fixing bugs. Glitches in the process of writing, printing, and shipping documentation have been eliminated. As new and updated products have begun pouring out, sales have shot up—roughly 60% in the year ending June 30.

To keep up with the fast pace, FourGen employees often work 60-hour weeks. They are expected not just to put their time in but to decide for themselves what to do; and in some cases, they are paid below-market wages. What makes the system possible is the fact that most are owners of the company and are treated as such. Basic financial information is distributed monthly. Fringe benefits are generous, and cash compensation is supplemented with bonuses based on FourGen's profitability. Seventy percent of the company's 90 employees hold potentially lucrative stock or stock options. "In the end, we intend to create a lot of millionaires," says Gagliardi.

To stay lean, everyone is trained on every piece of equipment. People fill in for one another. Repairs and maintenance are done on the spot, by the same people who run the equipment.

Competitive Edge: Low Cost

INTEGRITY INDUSTRIES (#394), IN KINGSVILLE, TEX., DIDN'T have what you would call an auspicious beginning. Not only had founder Max Duncan lost his job, not only were the South Texas oil fields in a state of near-collapse, but Duncan had virtually no money. Nor was any outside financing available: back then, energy-related ventures were as popular with Texas banks as a skunk at a wedding.

So Duncan redefined the concept of bootstrapping. He located a vacant facility where he could blend specialty chemicals and persuaded the owner to sign on as a partner: Duncan gave him one-third of the fledgling company in return for a year of free use. He found an experienced sales manager willing to take another third of the company in lieu of a year's salary. Duncan bought used equipment for "pennies on the dollar"; he ordered free samples from chemical companies for his initial raw materials. He lived on unemployment benefits.

Even in a depressed industry, however, Duncan quickly found customers. The reason was simple: his costs were so low that he could charge 10% to 20% less than the competition. He made a little, sold a little, poured the profits back into the company, and made a little more. Soon he had a modest loan from the local bank, and by the end of his second year he had bought the blending facility from his partner. Since 1987 the company has grown more than eightfold. Even with growth, though, Duncan never lost sight of Integrity's key advantage, which was its ability to maintain rock-bottom costs. "We're able to make healthy profit margins and keep prices low by maintaining extreme efficiency in our operation," he explains.

What makes for efficiency in this near-commodity industry? For one thing, not only does Duncan blend chemicals, he designs and builds his own blending equipment. A plant for making "soap sticks"—products dropped into a well to help the oil or gas flow more freely—uses a unique hot-water heating system and requires only one operator, compared with the three or four attendants required to run conventional equipment. Another custom plant, for oil-based drilling fluids, allows one employee to do the work of five. What makes such a quantum jump possible, says Duncan, is the fact that the specialty-chemicals end of the energy industry has been a kind of backwater, largely ignored by engineers. "So we took some time and spent some money in making the plants do a hell of a lot better job than what was already on the market."

Integrity's work force gives new meaning to the term *lean*. Duncan expects this year's sales to rise 10% over last year's. Yet the head count remains at only 18: Duncan, three people in sales and marketing, an accountant, a secretary, and 12 production and delivery people. Production managers work alongside line workers; everyone is trained in the operation of every piece of equipment. People fill in for one another as necessary. Repairs and maintenance are done on the spot, by the same people who run the equipment. "They're extremely knowledgeable about every phase of our operations," says the CEO.

Integrity spends money to make sure the employees keep all that knowledge within the company. Wages average 50% above the current industry standard. The company pays for health insurance. A pension plan matches up to 15% of an employee's earnings, and a bonus plan distributes up to 25% of profits. Duncan makes a point of both training employees and letting them know how the company is doing. ("It's kind of an open-book-type policy," he says.) The result: turnover at Integrity is virtually nil. "We have high levels of expertise because all of our people are experienced in our own operation."

Competitive Edge: Getting Shelf Space

QUESTION: HOW DOES A YOUNG COMPANY COMPETE IN THE toy business? If you said, Get on the shelf at Toys 'R' Us, you win. The giant retailer has up to 50 times as much space for toys as other toy sellers do, and smaller merchants watch closely what their big competitor buys. Trouble is, not much of that extensive shelving is up for grabs. Giants such as Mattel and Hasbro claim sizable chunks. Classic toys—from Monopoly games to the Fisher-Price preschool line—occupy much of the rest.

Such obstacles don't faze John Osher, founder and president of Cap Toys Inc. (#92), who has built his Bedford Heights, Ohio, company around just such a strategic focus. "You're not competing with other companies head on, you're competing for shelf space," he explains. "You're trying to create toys that buyers have to buy because they feel that everyone else is going to buy them."

Osher's methods: spend at least two months a year on the road visiting the professional toy inventors who come up with most of the industry's new products. ("To get 10 or 12 products, we probably look at 3,000 concepts," says Osher.) Keep an eye out for toys that have some unusual features without being too far out. (Example: Cap's Giant Bubble Gun, a battery-operated device that blows soap bubbles.) Stay away from dolls, action figures, and other fashion-driven categories; they're too unpredictable. Make sure you have plenty of manufacturing capacity available, but keep overhead low. (Cap collaborates with a Hong Kong partner that oversees manufacturing; the partner is paid entirely on commission.)

Most important: work closely with Toys 'R' Us buyers. Show them concepts. Develop packaging themes together. Discuss pricing. If they don't want it, don't argue; chances are there's something wrong with your approach. "If Toys 'R' Us doesn't like the toy, we don't do the toy," declares Osher. Finally, make sure the toy can sell itself on the shelf, since TV advertising is both costly and risky.

Once you're on the shelf you have a good chance of staying there: Osher hopes for three to five years of sales from each toy, and he develops lines of toys that build on previous sales. That's why Cap's revenues, already up 2,392% in the past five years, will likely rise another 100% this year. At that rate, Osher will reach his start-up goal—a $100-million company—in short order.

ONE INDUSTRY, DIFFERENT EDGES

The task for a company in the construction industry: erect high-quality buildings at the lowest possible cost. But what if everyone else does the job (or claims to do it) as well as you do? Like any business, a contractor or builder has to develop an edge by choosing one key element of the trade and delivering it better than any competitor does—and by pouring all necessary resources into that strategic focus.

Do the most successful contractors tend to choose the same focus? Nope. The builders on this year's *Inc.* 500 are the cream of anyone's crop: they recorded their rapid growth during a five-year period when construction nationwide was shrinking by 15%. Even so, they're as different from one another as a screwdriver from a blowtorch. Some examples:

Managing subcontractors. Doug Anderson of Union Pointe Construction (#205), in Salt Lake City, relies on subcontractors for 40% to 80% of each contract; he attributes Union Pointe's success to its "superior relationship" with them. Anderson carefully prequalifies subs before giving them a job, asking them to fill out detailed questionnaires indicating the size and types of projects they've worked on in the past. Once hired, subs must purchase and follow a standard specification manual, a tome that spells out company policy down to the tiniest detail. In return, Anderson says, he'll cut his subs slack when needed—for example, providing them advance draws when cash is tight.

Drumming up new business. Joel Field of Field Brothers Construction, in Marion, Ohio, has made the *Inc.* 500 twice (#417 this year, #131 last year) by turning his business into a numbers game. The company—run also by brothers Jon and Dave Field—specializes in home remodeling and uses telemarketing to find new customers. The key: a predictive dialing system that lets operators cull numbers from a computerized database and call up to 14,000 households a day. Each day's calls typically generate 50 qualified appointments, 30 of which Field Brothers converts into jobs.

Creating a distinctive image. Ken Wells of Key Construction (#259), in Wichita, wants to make "customers so happy they can't stand the thought of doing business with anybody else." But first they must believe that Wells is different from everybody else. To that end, Wells has field workers wear uniforms on the job; his office staff wear regular business apparel. Stationery and envelopes are embossed, not just printed, with Key's logo. Job sites are neat and are posted with highly visible Key Construction signs. Wells's rationale, which he tries to instill in every one of his employees: each job is not just an opportunity to make money but an occasion to sell the company.

—Alessandra Bianchi

Competitive Edge: A Unique Distribution Channel

NOT MANY START-UP ENTREPRENEURS WOULD CARE TO plunge into a slow-growth manufacturing business dominated by big German and Japanese companies. But Eric Stetzel did just that—and his company, Panoramic Corp. (#46), is now the nation's top seller of panoramic-X-ray machines, the kind that let dentists photograph a patient's whole mouth at once. Stetzel's secret: he developed a distribution channel competitors couldn't easily emulate. Stetzel began selling supplies to dentists right after he finished college. He took on a Japanese panoramic-X-ray line and soon was its largest U.S. distributor. But in the mid-1980s, with the yen rising relative to the dollar, Stetzel began thinking of eliminating his supplier. Knowing there was plenty of excess manufacturing capacity in his hometown of Fort Wayne, Ind., he sought out a partner capable of reverse-engineering the Japanese machine and producing a homegrown version of it—much as Japanese companies once did with countless American products.

In 1988 Stetzel's new company, Panoramic, began marketing its U.S.-made machines direct to dentists, no distributors involved. Today, only four years later, it's still the only direct seller in the industry. Salespeople based in Fort Wayne make calls around the country and attend trade shows. Once an order is in, the machine is shipped out promptly; it can arrive in a dentist's office as early as the next day.

The maintenance of this distribution channel is a top priority for Panoramic. Customer-service reps call buyers monthly and visit their offices twice a year. The company offers a two-year parts-and-labor warranty, as compared with the one-year parts-only warranty standard in the business. "We feel that loyalty and word of mouth really help us," says Stetzel.

Eliminating the middleman, adds the 36-year-old founder, allows Panoramic to keep prices low even while offering services a buyer might expect from a dealer, such as below-market financing. Best of all, none of his big competitors can easily emulate the strategy of direct selling. "They'd have to cut off dealers they've had for years," says Stetzel with a laugh. "Besides, they sell everything from dental chairs to toothbrushes, and those products do need distributors."

Panoramic's sales this year are expected to hit $12 million, up from about $6 million last year. ❑

THE NEXT GENERATION

The 30 *Inc.* 500 CEOs who are 30 or younger are different from their older colleagues. Their claim: the younger you are the better when it comes to starting a company

BY BRUCE G. POSNER

INC. 500

MOST PEOPLE WHO EVENTUALLY START SUCCESSful businesses travel a familiar path. They set off after college to get their feet wet in corporate America. Then after a decade or so at other companies, they go off on their own. To one degree or another, the businesses these men and women start are shaped by their experiences. But recently, we've noticed a new wave of businesses begun not by veterans but by brazen young people with no claims to any experience.

It's hard to quantify the phenomenon—we know of no numbers. But individuals who are in good positions to track this activity (college career counselors, for instance) say a new, more virulent strain of start-up fever has been striking college students and other young adults since the late 1980s, when many big companies began closing doors on entry-level hiring and lopping off tens of thousands from their work forces. With all the concern about how problematic it can be to survive and flourish in established organizations, starting one's own business has emerged as an appealing option, says Marcia Harris, director of career-development services at the University of North Carolina at Chapel Hill. "Young people are saying, 'If we can't count on someone else, we'll hire ourselves.'" For the first time, we're seeing the ripples of this trend in the *Inc.* 500; this year, 30 company founders (29 men and one woman) are 30 years old or younger, which means most of them began their businesses before their *25th* birthdays.

Jim Noble of Noble Oil Services: 'I didn't carry around a bag of "You can't do's."'

A few, it seems, were born to start companies. Ben Narasin of Boston Preparatory (#416) has been fixated on the notion since childhood, when he watched his father go off to work at IBM. An entrepreneurial-studies major at Babson College, Narasin, now 27, wrote the original business plan for his men's-sportswear-manufacturing business as his senior thesis. And that was after he'd already had a string of other money-making endeavors.

Narasin, however, isn't really typical. Others, rather than organize their lives to become entrepreneurs, studied political science, premed, or art history (three skipped college altogether), and became company founders more accidentally. Jack Mayes of Cardboard Gold (#74) dropped out of the University of California at Irvine, and after striking out selling baseball cards, shifted into selling paraphernalia for baseball-card collectors. Yvonne Cucci of Cucci International (#474) began by printing T-shirts for her father's boat business as an alternative to taking a sales job at the local mall. And Bud Prentice of Applied Computer Technology (#257) spent part of his spare time while a student at Colorado State assembling low-cost personal computers for a widening circle of friends. Only after these founders had been at it awhile did it dawn on them that, lo and behold, they had "businesses."

Getting a business off the ground can be intimidating at 22 or 23. "People had a hard time taking me seriously," recalls Prentice, now 28, echoing others' comments. "A supplier once asked me, 'Where are your parents?'" For many of these founders, a big hurdle was money. Since few of them had personal savings or collateral to borrow against ("What was the bank going to take, our *stereos*?" asks John Chuang of MacTemps [#12]), there were generally two options: being crafty at bootstrapping, as

PHOTOGRAPH: SENY NORASINGH

THE UPSTARTS

Here, in alphabetical order, are the Inc. *500 companies whose founders were born in 1962 or later.*

Applied Computer Technology (#257)
Athletic Fitters (#323)
BitWise Designs (#79)
Boston Preparatory (#416)
Cadapult Graphic Systems (#72)
Cardboard Gold (#74)
Creative Producers Group (#329)
Cucci International (#474)
D.J. King Trucking & Excavating (#123)
D&K Enterprises (#137)
Federal Investment (#36)
Gateway 2000 (#2)
Glitterwrap (#38)
Griffis/Blessing (#361)
Inside Communications (#239)
Insight Distribution Network (#5)
IVT Limited (#241)
J and M Laboratories (#487)
Koch International (#315)
MacTemps (#12)
MBS Communications (#368)
Micro-Frame Technologies (#50)
Noble Oil Services (#196)
Premiere Merchandising (#64)
Small Systems Management (#223)
Southern Audio Services (#255)
Staff Relief (#44)
Summit Marketing Group (#88)
SWFTE International (#166)
Union Pointe Construction (#205)

were Geoff Snelling and Marc Greenberg of Small Systems Management (#223), who started their business on $460 each; or convincing family members that the business was a decent investment. More than a quarter were able to do the latter. Those who managed to get bank loans almost always had to get parents to cosign.

Yet this group doesn't hold grudges against skeptics who may have brushed them off. Memories of doubting bankers and customers have for the most part faded. What you hear now is that one's twenties are really the *best* time of all to launch a business.

PRACTICALLY EVERYONE TALKS ABOUT the personal aspects of starting a business while relatively young. Without families or other constraints, these entrepreneurs were free to work 80-hour weeks without worrying about being late for supper or missing Little League games. Living in cheap apartments with roommates—or, as in the case of Michael Levin of Cadapult Graphic Systems (#72), at home with parents—they could keep overhead costs low. And if the business fizzled, when else in their lives would they be in as good a position to pick up the pieces? "The worst thing that would happen," figured Bob Roscoe of MBS Communications (#368), "was that I'd have to go out and get a job like other people."

Hearing about the personal pluses of starting in one's twenties isn't surprising. What's remarkable is the extent to which these founders talk about the *business* advantages of being young and freewheeling. To be sure, a few of them went out of their way to find gray-haired advisers to help them through dicey business situations. Ian Griffis and Buck Blessing, cofounders of Griffis/Blessing (#361), a real-estate-management company, decided relatively early to set up a board of experienced businesspeople to help them gain perspective. "We didn't think we needed to reinvent *every* wheel ourselves," explains Blessing. But most of these risk takers learned to live by their wits and to depend on those of their closest associates. "We were always looking for new ways to do things," says Eric Crown, founder of Insight Distribution Network (#5), a computer mail-order business. Often, he says, the solutions they found worked at least as well as those competitors came up with—at a fraction of the cost.

Even those who entered more established industries felt no compulsion to toe any line. Jim Noble of Noble Oil Services (#196), who started his waste-recycling business three years out of high school, had been warned by some industry veterans that he wouldn't be able to find buyers for a certain type of industrial diesel oil. But he produced it anyhow—and is glad he did. Within six months it accounted for 40% of his business. Since then, he says, he's challenged the way the industry thinks about lots of things. "Unlike people who've been in our business for 10 or 15 years, I didn't carry around a bag of 'You can't do's,'" says Noble, now 30. "That's given us a big advantage."

IF THESE YOUNG FOUNDERS ARE AT ALL representative, people starting businesses in their twenties have different notions about work and organizations than their older counterparts do. Not only were these individuals more inclined to launch their companies with at least one partner (65% of the under-30s compared with 58% of the entire list); they also talk more about the importance of fun. That includes having a challenging and supportive environment in which people dress more casually than in most workplaces. John O'Neil of Micro-Frame Technologies (#50) kicks off his shoes the minute he walks into the office. Connected to many founders' definitions of fun is the idea of people doing high-quality work in teams and being rewarded at least as well as employees at other companies.

Indeed, many in the 30-and-younger set take pride in what they describe as a

MacTemp's John Chuang had no collateral to borrow against. 'What was the bank going to take, our stereos?'

PHOTOGRAPH KATHY TARANTOLA

lack of hierarchy within their organizations. The idea of managing from the top down makes many of them uneasy. "People don't like feeling that you're the boss and they're the employees," notes Brian Shniderson, 27, who cofounded Premiere Merchandising (#64) with his cousin Greg Klein, 25, when they were undergraduates at UCLA. "So we give them lots of autonomy and good benefits. We've got lots of deadlines, so it requires a total team effort, or else the road gets pretty bumpy."

For some, a flatter organization is also appealing economically. "Managers and supervisors cost a lot of money," explains Chuang of MacTemps, who recently got his M.B.A. from Harvard. So rather than build up layers, he's investing in technology and computers to handle some of the things supervisors do in other companies. "This way," Chuang says, 'our people will be doing more interesting work, and we'll be able to pay them better."

As fervently as young founders talk about the importance of giving employees responsibility, not many have shared ownership with them. Only a third of the group say they have given any equity to employees. And though only a few rule it out, most say they haven't thought much about it. Like Paul Taunton of Athletic Fitters (#323), they're convinced that, for now, young people are more interested in compensation and interesting work than in owning a piece of the business.

AND WHAT ABOUT THESE FOUNDERS themselves? By now most of them have been involved in their businesses for 6 or 7 years. After a blur of 80-hour weeks, some say they really don't *feel* so young. "My girlfriend says I look 10 years older than I am," notes Cardboard Gold's Mayes, who recently turned 26. While many of their friends are still struggling to get established in their careers, these CEOs are already grappling with questions usually reserved for their elders: What role do they want to play in the business? And where are they needed?

For some, the choice is clear. "I used to be on call at all hours, putting out fires, but now we have other people who can do that," says Roscoe of MBS Communications. He used to go without vacations, but since he got married, last December, he's taken four weeks off. Likewise, Tom Mosey of D&K Enterprises (#137), a publisher of children's books, spends a lot of his time acting as a cheerleader, and he's cut way back on weekend work. "For almost a year my wife and I have been going to our lake house every Friday," he says. "She won't tell me the phone number."

For others, redefining their jobs has been anything but easy. Some who've balked at giving up responsibility are fearful of what might happen if they don't and what might happen if they do; others who've booted themselves upstairs don't seem happy with where they are. "I miss the excitement of the trenches," says Crown of Insight Distribution Network, who says he spends a lot of his time on legal and administrative problems. "It's not nearly as much fun as it was in the first few years."

Eighty-hour weeks take their toll. 'My girlfriend says I look 10 years older,' says Cardboard Gold's Jack Mayes.

So what will they do next? About a third of them speculate about selling their companies or taking them public in the next few years, at which point a few think they'd go out and start something else. And what about the ones who don't talk about selling? Well, for the next 10 years or so they plan to work toward taking their businesses to the next stage—hitting revenues of, say, $40 million or $50 million. Some are thinking about ways to diversify their products, others about exporting. And for many more, the big challenge is learning how to do a better job in the markets they're already in. "I really can't see selling for at least 10 or 20 years," says 30-year-old Michael Koch of Koch International (#315). "I guess I don't know what I'd do with the money."

Money is clearly something most have thought about. But a lot of them profess to be less focused on financial success now than when they started. Maybe it's because they don't have to worry as much about meeting payroll, or because they're *already* more successful than they'd ever imagined. But what motivates them today has less to do with their net worth and more to do with how they're viewed by others: their customers, their employees, even their competitors. "I don't feel we have to be the biggest," says Noble of Noble Oil, "but I do want to be recognized by people in our industry as being innovative and well managed. That would be very satisfying for me."

In this age of environmentalism, you'd expect this group to have grand visions about their impact on the world—how their businesses will make the planet cleaner or safer or prettier. But though they talk about their personal commitments to causes—to the environment and to helping people and communities through charities—the business, they maintain, needs to be handled separately. It's as if they were saying, "We're not kids, we're businesspeople." And now that they have others counting on them—customers, employees, spouses, and children—their first obligation is to make sure the business grows and makes money. As Levin of Cadapult Graphic Systems puts it, "We want to make things better, but we're not Ben & Jerry's." ❏

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PHOTOGRAPH VOLDI TANNER

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World-Wide Refinishing Systems (169)
Wilmington Work Services (13)
Z-Bomb Productions (317)
Zeden Enterprises (402)
Zia Cosmetics (455)

THE LIST

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range* '91	Profit range* '87	No. of employees '91	No. of employees '87	Date founded
1. Kingston Technology Fountain Valley, CA Mfrs. periph. for PCs	117,122	$140,666	$120	A	A	110	2	1987
2. Gateway 2000 (1) N. Sioux City, SD Mfrs. & sells PCs	41,355	626,798	1,512	C	D	1,193	11	1985
3. M.D. Enterprises of Connecticut N. Haven, CT Provides HMO coverage to employers	35,767	83,212	232	D	F	163	20	1987
4. Veragon Houston, TX Mfrs. & sells diapers	33,687	34,125	101	F	F	110	30	1987
5. Insight Distribution Network Tempe, AZ Mkts. computers & computer prods.	25,545	61,548	240	D	D	250	10	1986
6. Sterling Healthcare Group Coral Gables, FL Provides health-care-mgmt. svcs.	21,705	28,128	129	C	F	40	0	1987
7. Indeck Energy Services (38) Buffalo Grove, IL Develops & operates cogeneration power plants	18,828	77,793	411	F	F	126	16	1985
8. Communique Telecommunications Ontario, CA Provides telecommunications svcs.	14,395	18,844	130	E	F	60	20	1983
9. Technology Works (4) Austin, TX Designs, mfrs., & mkts. computer-memory add-on prods.	12,747	28,264	220	D	F	100	20	1983
10. Transitional Technology Anaheim, CA Mfrs. helical scan tape subsysts. for computer market	9,823	11,511	116	D	A	46	4	1987
11. Parsons Technology Hiawatha, IA Develops software	9,771	28,033	284	D	D	235	2	1984
12. MacTemps Cambridge, MA Provides Macintosh temporary-personnel svcs.	9,437	13,447	141	D	B	72	3	1986
13. Telephone Express Colorado Springs, CO Provides long-distance telecommunications svcs.	8,771	18,451	208	C	A	80	24	1987
14. Worthington Voice Services Worthington, OH Provides 900-phone-number info. svcs.	8,599	9,134	105	A	A	9	2	1987
15. Alliance Employee Leasing Dallas, TX Provides employee-leasing svcs.	8,029	174,618	2,148	E	F	37	7	1986
16. Administaff Kingwood, TX Provides staff-leasing svcs.	7,316	298,360	4,023	D	E	11,380	430	1986
17. Active Voice Seattle, WA Develops voice-processing equip. & software	7,152	11,531	159	B	B	90	8	1983
18. Dunsirn Industries Neenah, WI Converts & sells paper & film prods.	7,125	9,754	135	C	F	62	12	1987
19. Salepoint Systems San Diego, CA Develops & sells IBM prods.	7,000	7,810	110	A	F	30	7	1986
20. Mega-Sys Greenwood, IN Provides logistics & transportation svcs.	6,967	7,703	109	D	F	13	2	1986
21. Jelyn & Co. Fort Washington, PA Mfrs. & distr. sweaters	6,915	8,769	125	B	C	15	2	1987
22. Powerfood Berkeley, CA Mfrs., mkts., & distr. a sports energy bar	6,714	10,970	161	D	F	56	0	1985
23. MapInfo Troy, NY Mfrs. computer software	6,671	7,042	104	C	F	80	8	1986
24. Metrica San Antonio, TX Provides data-processing, systs.-integration, & research svcs.	6,269	8,152	128	D	F	145	9	1984
25. Shiva (18) Cambridge, MA Designs & mfrs. internetworking prods.	5,957	28,044	463	F	F	130	7	1985

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

11

PARSONS TECHNOLOGY

Hiawatha, Iowa

MARTHA & BOB PARSONS

Bob and Martha Parsons started their software company in the basement of their nine-room home in 1984. It was a family affair. Their 5-year-old daughter, affectionately nicknamed "the mailman," stacked envelopes while their 15-year-old son answered the phone. Back in the early 1980s Bob Parson's father joked that they should be sure to take a photograph of the basement brigade in case the company ever got big.

Eight years and 250 employees later the husband-and-wife team wish they had taken that picture. Known for its customer service, Parsons develops and sells affordable software used in small businesses, homes, and churches. MoneyCounts, still the company's premier product, grew out of a program Bob had originally developed to manage the family's finances.

So, is there anything to miss about those basement days? Bob Parsons says with a smile, "I miss the looks we'd get from our neighbors when the 18-wheeler pulled up to the front door."

PHOTOGRAPH: KING AU

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range*		No. of employees		Date founded
				'91	'87	'91	'87	
26. Parexel International (11) Waltham, MA Provides pharmaceutical R&D svcs.	5,922%	$25,652	$426	D	F	550	16	1983
27. Corporate Express (10) Boulder, CO Distr. office prods.	5,909	36,413	606	F	C	167	35	1985
28. McArthur/Glen Group McLean, VA Develops retail real estate	5,754	24,000	410	F	F	124	9	1986
29. MVM (244) Falls Church, VA Provides security & investigative svcs.	5,685	24,181	418	D	F	798	30	1979
30. B&V Technology (122) Idaho Falls, ID Mfrs. pharmaceutical, home, & personal-care prods.	5,647	18,275	318	A	A	231	18	1981
31. Mastech Systems Pittsburgh, PA Provides custom programming & systs.-integration svcs.	5,438	13,513	244	B	D	247	4	1986
32. Maximum Strategy San Jose, CA Develops & mkts. storage solutions for computing systs.	5,331	7,820	144	A	D	25	6	1986
33. AAMP of America Clearwater, FL Wholesales auto stereo parts	5,089	6,694	129	B	F	29	4	1987
34. Florida Infusion Palm Harbor, FL Distr. pharmaceuticals & medical supplies	5,060	21,931	425	B	B	16	2	1987
35. Global Mail Sterling, VA Provides intl. mail svcs.	5,018	8,803	172	C	C	45	4	1987
36. Federal Investment E. Providence, RI Develops real estate & provides property-brokerage svcs.	4,972	12,629	249	B	C	20	3	1987
37. Contract Manufacturer Madill, OK Mfrs. horse, stock, flatbed, & cargo trailers	4,962	5,619	111	D	E	68	12	1976
38. Glitterwrap Westwood, NJ Sells metallic & iridescent gift wrap & tote bags	4,926	10,404	207	D	D	75	2	1987
39. StarPak (23) Denver, CO Provides software & fulfillment svcs.	4,779	12,930	265	D	F	125	14	1978
40. Trigen Energy (70) White Plains, NY Provides heating & cooling to buildings	4,595	44,930	957	D	F	195	8	1986
41. Focus Healthcare Management Brentwood, TN Provides workers' comp medical-cost-mgmt. svcs.	4,564	11,521	247	D	F	200	40	1986
42. Mustang Engineering Houston, TX Provides engineering svcs. for oil & gas industry	4,546	15,286	329	C	C	230	10	1987
43. Corporate Child Care Management Nashville, TN Develops & manages employer-sponsored child-development centers	4,306	6,344	144	F	F	400	5	1987
44. Staff Relief Houston, TX Provides contract nursing svcs. to hospitals	4,276	13,521	309	D	D	600	0	1987
45. American Megatrends (2) Norcross, GA Designs & mfrs. computer motherboards	4,165	70,210	1,646	A	D	114	10	1985
46. Panoramic Fort Wayne, IN Mfrs. & mkts. panoramic-X-ray equip. for dental profession	4,143	5,855	138	A	F	20	5	1986
47. Melaleuca (105) Idaho Falls, ID Mkts. pharmaceuticals	4,143	100,765	2,375	A	B	728	28	1985
48. Adtran Huntsville, AL Designs, mfrs., develops, & sells electronic equip.	4,038	42,621	1,030	A	F	225	23	1986
49. User Technology Associates Arlington, VA Provides computer svcs.; designs & develops systs.	3,934	12,424	308	B	F	250	3	1985
50. Micro-Frame Technologies Ontario, CA Develops cost-mgmt. software for PCs	3,881	5,454	137	B	F	46	8	1985
51. Tycom Limited Partnership Santa Ana, CA Mfrs. precision cutting tools	3,848	11,450	290	F	F	210	15	1986
52. Conmec Bethlehem, PA Rebuilds, repairs, & supplies rotating equip.	3,819	19,401	495	D	C	110	7	1987
53. Registry Wellesley, MA Provides contract computer-personnel svcs.	3,809	16,927	433	D	F	54	10	1986
54. Presidio Suitland, MD Provides computer-systs. integration, prods., & svcs.	3,792	4,087	105	E	F	15	3	1986
55. Abacus (43) San Francisco, CA Sells & svcs. PC systs.	3,615	30,276	815	D	D	103	31	1979
56. Softub Pacoima, CA Mfrs. & mkts. soft-sided portable spas	3,555	6,359	174	D	F	70	3	1986
57. Select Ticketing Systems Syracuse, NY Produces & installs computerized box-office & outlet ticketing systs.	3,547	8,024	220	D	F	69	7	1986
58. Kofax Image Products Irvine, CA Develops image-processing hardware & software	3,503	10,342	287	F	F	96	7	1985
59. CMG Health Owings Mills, MD Manages health-treatment centers	3,381	10,442	300	F	D	95	3	1986
60. Leasing Solutions (12) San Jose, CA Leases computer equip.	3,286	23,295	688	D	F	48	12	1986

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

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GLOBAL MAIL

Sterling, Va.

GLENN CAFRITZ & HARRY GELLER

If Fred Smith's Federal Express revolutionized mail delivery here at home, Harry Geller and Glenn Cafritz are taking the revolution abroad.

Their company, Global Mail, arranges delivery of business mail overseas in half the time and at half the cost of U.S. Postal Service delivery. "If the letter is late or lost, we refund the money or whatever the customer wants," Geller says. How does the company do all that? It shaves off 5% to 70% of typical labor costs by plugging into a network of private mail distributors.

Global Mail started life as a small, unprofitable division of the then-$50-million Sky Courier Network. When the division went on the block, in 1987, Geller and Cafritz, then Sky Courier employees, pooled their savings and bought it. Their dream is to see Global Mail outstrip its former parent in sales. At their present rate of growth, the partners think D-day is only five years away.

PHOTOGRAPH MANUELLO PAGANELLI

INC. 500

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EDUCARE COMMUNITY LIVING

Austin, Tex.

RICHARD RELYEA

Whenever Richard Relyea feels weighed down by the pressures of running a fast-growth company, he closes his books and takes a drive to see his business at work. "It always lifts me up," he says. Which isn't surprising, since EduCare, started in 1986, moves the disabled from overcrowded, underfunded institutions and settles them into clean, spacious community housing.

Thanks to shrinking state budgets along with a shift away from institutional care, governments around the country are trying to place more patients back into the community, which is where EduCare comes in. Relyea outfits a home, puts a full-time staff in place, and cares for patients for 60% of what it costs a state to do so.

As for the payoff to the patients, Relyea says simply, "If you treat people as if they're different, they act different; but if you tell them they're better, they act better."

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range* '91	Profit range* '87	No. of employees '91	No. of employees '87	Date founded
61. Ward Petroleum (125) Enid, OK Explores for, produces, & mkts. natural gas & related prods.	3,258%	$146,886	$4,374	D	B	79	70	1971
62. Auto Kontrols Houston, TX Designs, mfrs., & installs electrical systs.	3,128	7,941	246	D	F	40	8	1987
63. Compurex Systems Easton, MA Buys, sells, & leases digital computer equip.	3,064	15,123	478	D	F	16	2	1987
64. Premiere Merchandising Inglewood, CA Provides promotional marketing svcs.	3,043	3,489	111	E	F	12	2	1987
65. National Safety Associates (24) Memphis, TN Mfrs. water- & air-filtration systs.	2,946	284,891	9,353	A	D	650	150	1970
66. Fortitech Schenectady, NY Mfrs. vitamin & mineral premixes	2,902	5,223	174	C	F	18	4	1986
67. Calais Home Houston, TX Builds single-family houses	2,894	9,491	317	D	F	20	5	1986
68. Abacus Technology Chevy Chase, MD Provides info.-systs. consulting svcs.	2,890	12,407	415	C	F	104	9	1983
69. Wind River Systems Alameda, CA Develops & distr. computer operating systs. & development tools	2,871	17,085	575	C	E	125	12	1983
70. EduCare Community Living (15) Austin, TX Provides long-term health care for the disabled	2,862	13,685	462	C	F	328	18	1986
71. Coldwater Creek Sand Point, ID Sells nature-related gifts through a catalog	2,814	10,869	373	A	A	54	4	1984
72. Cadapult Graphic Systems Paramus, NJ Sells, svcs., & supports computer graphics systs.	2,785	4,125	143	D	F	8	1	1987
73. Pacific Trading Overseas Miami, FL Exports chemicals & plastic resins	2,769	5,423	189	B	E	3	2	1982
74. Cardboard Gold (208) Santa Ana, CA Distr. sports-collectible supplies & accessories	2,760	11,154	390	C	E	16	2	1985
75. Atlantic Coast Textiles Atlanta, GA Wholesales textiles & linens	2,739	3,322	117	D	E	8	2	1987
76. Intl. Computers & Telecommunications Rockville, MD Supports high-tech systs.	2,682	11,269	405	E	F	205	9	1981
77. Grand Aire Express Monroe, MI Flies on-demand passenger & cargo air charters	2,640	3,808	139	A	A	41	3	1985
78. Montgomery Development Syracuse, NY Provides general-contracting svcs.	2,625	6,349	233	D	D	25	5	1986
79. BitWise Designs Schenectady, NY Mfrs. computers & workstations for imaging marketplace	2,611	2,928	108	D	F	10	6	1985
80. Vermont Teddy Bear Shelburne, VT Mfrs. & sells teddy bears	2,562	5,245	197	E	F	130	30	1982
81. Item Products Houston, TX Creates modular building systs.	2,552	3,845	145	A	A	31	3	1982
82. Tampa Bay Vending Tampa, FL Operates full-line vending co.	2,541	2,747	104	A	C	35	5	1987
83. Collegiate Sports Design New Strawn, KS Mkts. collegiate-sports-championship souvenirs	2,534	4,294	163	F	D	6	1	1986
84. Deneba Systems (84) Miami, FL Develops & mkts. microcomputer software	2,532	8,421	320	A	A	60	10	1986
85. Complete Health Services (494) Birmingham, AL Provides managed-care svcs.	2,483	159,651	6,182	D	F	410	40	1985
86. Fiber Optic Technologies Englewood, CO Designs & installs voice & data network systs.	2,453	5,949	233	D	C	73	4	1985
87. PAI (77) Oak Ridge, TN Provides engineering & environmental-consulting svcs.	2,453	7,454	292	C	C	65	5	1983
88. Summit Marketing Group Rochester, NY Publishes informational dictionaries; mkts. catalog memberships	2,451	4,516	177	D	D	159	6	1987
89. Payroll 1 MidAtlantic McLean, VA Prepares payrolls & payroll taxes	2,424	2,549	101	B	F	52	4	1986
90. Nationwide Remittance Centers McLean, VA Provides national wholesale & retail lockbox svcs.	2,412	9,899	394	F	F	175	12	1985
91. MediServe Information Systems Tempe, AZ Provides software svcs. to hospitals	2,404	2,704	108	B	F	20	4	1985
92. Cap Toys Bedford Heights, OH Mfrs. toys	2,392	18,264	733	C	F	30	5	1987
93. Tramex Travel Austin, TX Operates travel-mgmt. co.	2,365	14,764	599	D	B	37	18	1984
94. Ma Laboratories San Jose, CA Mfrs. computer prods.	2,355	52,470	2,137	D	D	70	5	1983
95. All Green Marietta, GA Provides lawn, tree, & shrub care & indoor pest control	2,330	9,476	390	D	F	240	73	1987

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH STEVEN PUMPHREY

INC. 500

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CENTER FOR APPLIED PSYCHOLOGY

King of Prussia, Pa.

LARRY SHAPIRO

Larry Shapiro was a child psychologist frustrated by the limits of his sole practice. Working with emotionally disturbed children, he constantly felt overwhelmed by the vast number of children in need of help (7 million in this country) compared with the handful of trained therapists. Add to that the fact that most parents couldn't afford therapy.

So in 1985 Shapiro decided to build a business around an idea he used in his own practice: games. Selling to health professionals, institutions, and parents, Shapiro makes games, toys, and books, and distributes them through mail order. Although these tools don't replace therapy, at costs ranging from $10 for books to $50 for big board games, they make therapeutic approaches affordable and thus available to more children.

Shapiro says he's definitely happier as a businessman. "A therapist always has to keep his emotions in check. In business, I can yell whenever I want to."

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range*		No. of employees		Date founded
				'91	'87	'91	'87	
96. **Goodman Music** Los Angeles, CA Sells musical instruments & recording equip.	2,305%	$10,968	$456	D	D	40	5	1977
97. **Sonic Solutions** San Rafael, CA Mfrs. software & hardware for digital audio systs.	2,301	5,787	241	A	F	30	6	1986
98. **Payroll 1** (140) Royal Oak, MI Provides computerized payroll & payroll-tax svcs.	2,296	3,737	156	C	F	100	12	1986
99. **Center for Applied Psychology** King of Prussia, PA Distr. psychologically oriented children's toys, games, & books	2,290	4,373	183	D	F	18	3	1985
100. **SMTEK** (141) Newbury Park, CA Mfrs. electronics for space, defense, & medical mkts.	2,284	9,204	386	D	F	85	13	1986
101. **Business Computer Training Institute** Mill Creek, WA Runs computer-training schools	2,266	8,801	372	D	F	162	36	1986
102. **Ethix** (135) Beaverton, OR Provides health-care-mgmt. svcs.	2,236	19,412	831	A	F	341	30	1982
103. **Red Rose Collection** Burlingame, CA Operates national mail-order co.	2,233	6,345	272	C	F	54	4	1987
104. **JTS Enterprises** Houston, TX Distr. & trades chemicals & provides consulting svcs.	2,209	18,864	817	D	A	3	1	1986
105. **Eastern Computers** Virginia Beach, VA Provides systs.- & electronic-engineering prods. & svcs.	2,195	49,834	2,171	C	F	400	75	1980
106. **Allstar Builders** Miami, FL Provides commercial & industrial general-contracting svcs.	2,182	4,860	213	B	B	18	5	1987
107. **MediCenter** (178) Lawton, OK Operates company-sponsored medical centers	2,172	12,516	551	B	A	92	17	1984
108. **Advanced Systems Technology** (195) Atlanta, GA Provides technical & engineering svcs.	2,166	11,669	515	D	F	155	8	1981
109. **Marathon Systems** San Francisco, CA Develops & integrates business-systs. software	2,138	4,744	212	D	D	47	10	1987
110. **DSS** Carmel, CA Provides contract food & industrial-engineering svcs.	2,135	4,380	196	D	E	180	5	1985
111. **Data Storage Marketing** Boulder, CO Distr. microcomputer components & periph.; mfrs. microcomputers	2,109	68,944	3,121	E	D	145	7	1987
112. **Vercon Construction** Greenville, SC Provides general-contracting svcs.	2,107	32,006	1,450	D	E	55	5	1987
113. **ProServe** (42) Denver, CO Manages institutional food-svcs. programs	2,107	8,255	374	D	C	325	3	1984
114. **Earth Care Paper** (39) Madison, WI Retails & wholesales prods. made from recycled paper	2,099	5,102	232	F	C	45	4	1983
115. **Symmetrix** (30) Lexington, MA Provides engineering svcs.	2,098	18,884	859	C	F	115	12	1986
116. **Atlantic Network Systems** Cary, NC Distr. data & voice-communications prods.	2,081	2,814	129	D	F	8	1	1987
117. **Ribbon Outlet** Somerville, NJ Retails ribbon, lace, & trim	2,068	14,354	662	F	F	450	14	1985
118. **Corporate Staffing Resources** Elkhart, IN Provides temporary, contract technical, & executive-search svcs.	2,011	12,938	613	D	F	60	5	1987
119. **Genpack USA** Bridgewater, MI Provides contract packaging svcs.	1,985	3,440	165	C	F	20	4	1987
120. **Copifax** Berlin, NJ Distr. & svcs. copiers, faxes, & digital duplicators	1,944	4,292	210	D	F	42	5	1987
121. **Intuit** (47) Menlo Park, CA Develops finan. software	1,926	44,539	2,198	C	B	242	13	1984
122. **Certified Abatement Systems** Houston, TX Removes asbestos & lead paint	1,915	4,010	199	A	C	25	10	1987
123. **D. J. King Trucking & Excavating** E. Windsor, CT Provides site contracting	1,911	2,614	130	E	F	28	6	1987
124. **Microtest** (126) Phoenix, AZ Develops & mkts. LAN diagnostic & connectivity prods.	1,894	17,209	863	B	D	108	13	1984
125. **SalesTalk** Mountain View, CA Provides product demonstrators for mfrs.	1,889	7,359	370	D	D	40	2	1986
126. **Gensym** Cambridge, MA Supplies real-time expert systs.	1,885	10,499	529	C	F	90	16	1986
127. **Technical Management Services** Arlington, VA Provides computer-systs.-development consulting svcs.	1,877	6,109	309	C	F	90	15	1981
128. **Automated Systems Design** Roswell, GA Designs & installs networks	1,861	2,883	147	D	F	32	1	1986
129. **Gym Masters** (104) Albany, CA Owns & manages fitness centers	1,855	6,237	319	D	F	60	4	1985
130. **Digital Network Associates** New York, NY Sells equip. & svcs. for interconnecting computer systs.	1,842	5,633	290	B	A	20	2	1985

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH DAVID FIELDS

INC. 500

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McGINNIS FARMS

Alpharetta, Ga.

STANLEY WALKER

Three years after Stanley Walker founded his nursery business, a tornado leveled his main office and warehouse. Today Walker calls the natural disaster a blessing. Not only did he post record sales that year, but the experience "created a bond and a sense of loyalty" among employer, employees, and customers. One customer even sent a check for $10,000 to help pay for the cleanup.

Before launching McGinnis Farms, in 1987, Walker had been the general manager for a variety of companies. Over and over, he learned that business is less about products than about people. Putting his theory into practice, he is an open-book manager, shares decision making, and offers 100% health coverage. Twice a year the company transforms itself for Customer Appreciation Day—complete with big top, putting green, and dunking booth. "If customers don't like a price, they can ask salespeople to sit in the dunking chair," Walker jokes. "If someone gets real wet, I know I have to change some prices."

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range* '91	Profit range* '87	No. of employees '91	No. of employees '87	Date founded
131. MediSense Cambridge, MA Mfrs. & sells medical equip.	1,840%	$89,782	$4,629	F	F	786	193	1981
132. Digidesign (204) Menlo Park, CA Designs, mfrs., & sells digital audio recording systs.	1,833	13,881	718	B	C	84	13	1984
133. Walklett Burns Malvern, PA Provides systs.-integration svcs.	1,794	2,140	113	D	D	30	3	1985
134. Automation Partners International San Francisco, CA Provides technology prods. & svcs. to law firms	1,774	21,795	1,163	F	D	120	10	1986
135. JRL Systems Austin, TX Designs & mfrs. market controllers & printers	1,758	2,935	158	B	C	18	3	1985
136. Advanced Computer Systems (250) Fairfax, VA Develops computer systs.	1,752	11,410	616	D	C	250	25	1982
137. D&K Enterprises Carollton, TX Mfrs. personalized books & child IDs, & analyzes signatures	1,750	1,924	104	A	A	18	1	1987
138. Bruce Co. Washington, DC Provides environmental-consulting svcs. to federal govt.	1,740	2,134	116	D	B	66	10	1985
139. Thomas-Conrad (22) Austin, TX Mfrs. LAN prods.	1,724	30,614	1,678	D	D	225	13	1985
140. Joe Koch Construction Youngstown, OH Builds single-family homes	1,714	5,532	305	B	D	21	6	1986
141. Spray Systems Environmental Tempe, AZ Provides contract environmental svcs.	1,697	8,626	480	C	C	125	6	1985
142. Coastal Environmental Services Linthicum, MD Provides environmental-consulting svcs.	1,692	2,760	154	D	B	33	4	1987
143. Design Automation Systems Houston, TX Integrates computer systs.	1,687	5,360	300	B	B	14	4	1985
144. Johnson & Co. Wilderness Products Bangor, ME Mfrs. & distr. wilderness prods.	1,686	1,822	102	D	F	13	1	1987
145. Pelton & Associates Redondo Beach, CA Provides marketing-communications svcs.	1,673	8,902	502	D	D	22	8	1987
146. Advanced Cellular Systems Graynaro, PR Provides cellular-telephone svcs.	1,673	8,066	455	D	F	39	4	1986
147. ROW Sciences (139) Rockville, MD Provides health & biomedical-research & computer svcs.	1,641	19,798	1,137	D	D	300	6	1983
148. Cutchall Management (99) Omaha, NE Owns & operates restaurants	1,631	3,324	192	C	D	60	1	1986
149. Atkinson-Baker & Associates Burbank, CA Provides court-reporting svcs.	1,631	3,860	223	D	C	30	3	1987
150. Digital Instruments Santa Barbara, CA Mfrs. high-resolution scanning probe microscopes	1,628	16,591	960	A	A	52	3	1987
151. Northwest Pine Products (327) Bend, OR Produces wood chips for pulp & paper industry	1,628	12,819	742	C	D	34	9	1984
152. Waste Reduction Systems Houston, TX Provides waste-disposal, materials-recovery, & garbage-collection svcs.	1,625	6,643	385	D	F	85	4	1986
153. Command Medical Products Ormond Beach, FL Mfrs. disposable medical prods.	1,613	3,118	182	F	E	130	5	1983
154. H. J. Ford Associates (138) Arlington, VA Provides info.-systs. & engineering svcs.	1,603	8,275	486	C	F	76	5	1981
155. Computer One Albuquerque, NM Sells, svcs., & supports Macintosh & related third-party prods.	1,587	7,507	445	D	F	16	12	1987
156. Recom Technologies (165) San Jose, CA Provides engineering, info.-systs., & technical-support svcs.	1,583	9,172	545	D	D	209	12	1980
157. Fanamation (86) Compton, CA Develops, mfrs., & sells coordinate measuring machines & software	1,578	5,620	335	F	F	48	9	1985
158. Taylor Medical Beaumont, TX Wholesales medical prods.	1,574	81,061	4,841	F	F	500	35	1987
159. Dickens Data Systems (90) Norcross, GA Mfrs. computer periph., publishes software, & integrates systs.	1,565	35,800	2,150	C	B	85	23	1981
160. Travelpro Luggage Deerfield Beach, FL Mfrs. & distr. luggage	1,556	4,090	247	A	F	15	2	1984
161. David Mitchell & Associates (150) St. Paul, MN Provides computer consulting svcs.	1,555	6,671	403	C	C	100	6	1984
162. Glenn-Runnion Charlotte, NC Provides computer-training svcs.	1,552	1,652	100	B	F	25	4	1986
163. McGinnis Farms Alpharetta, GA Sells nursery stock, landscaping supplies, & irrigation prods.	1,538	7,109	434	D	F	44	12	1987
164. Am-Pro Protective Agency (257) Columbia, SC Provides security-guard svcs.	1,533	34,122	2,089	E	E	1,193	78	1982
165. Loflin Environmental Services Houston, TX Provides industrial hygiene consulting svcs.	1,521	1,767	109	B	A	14	3	1986

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH G. PAUL HAYNES

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range*		No. of employees		Date founded
				'91	'87	'91	'87	
166. SWFTE International (216) Hockessin, DE Develops, mkts., & publishes software	1,520%	$2,025	$125	A	E	11	3	1983
167. Palm Tree Packaging Apopka, FL Mfrs., imports, & exports floral packaging	1,517	2,150	133	D	D	17	2	1987
168. Keypoint Technology Walnut, CA Mfrs. & distr. computer periph.	1,511	60,253	3,740	C	D	54	10	1987
169. World-Wide Refinishing Systems Waco, TX Refinishes bathtubs & tiles	1,499	2,974	186	A	F	20	3	1968
170. Ithaca Software Alameda, CA Develops portable 3-D-graphics software systs.	1,491	2,801	176	B	C	29	5	1985
171. MAR Oil & Gas Santa Fe, NM Produces & sells natural gas & oil	1,490	2,449	154	D	F	4	2	1981
172. J. L. Honigberg & Associates Chicago, IL Imports & distr. specialty fruits & vegetables	1,478	6,547	415	D	D	14	4	1986
173. Regency Coffee New Prague, MN Mfrs. & retails gourmet coffee	1,461	2,810	180	F	F	55	3	1986
174. Custom Applications Billerica, MA Develops & mkts. desktop-publishing software	1,441	5,209	338	B	D	38	3	1986
175. American Fashion Jewels (119) S. San Francisco, CA Retails fashion jewelry	1,429	23,900	1,563	E	D	145	8	1985
176. Creative Products Fairburn, GA Provides contract packaging svcs.	1,420	4,711	310	D	D	109	11	1984
177. Allied Holdings Torrance, CA Operates auto-parts distr., golf-club mfr., & employment & ad agcys.	1,419	30,485	2,007	F	F	200	4	1984
178. Groundwater Protection Orlando, FL Provides environmental drilling & remedial construction svcs.	1,416	6,927	457	D	F	85	8	1986
179. Three Springs (130) Huntsville, AL Provides residential treatment for troubled adolescents	1,415	5,029	332	A	C	89	11	1985
180. PBR Consulting Group Philadelphia, PA Provides PC & tech consulting svcs.	1,412	5,019	332	D	A	52	12	1987
181. Biosym Technologies San Diego, CA Develops, sells, & supports software	1,406	22,869	1,519	D	F	160	50	1984
182. Gardner/Fox Associates Bryn Mawr, PA Provides general-contracting svcs.	1,404	5,100	339	D	D	45	2	1987
183. Maier Group (72) New York, NY Supplies home videos	1,396	6,012	402	C	F	18	7	1986
184. Action Temporary Services Evansville, IN Provides temporary-personnel svcs.	1,393	1,896	127	D	D	7	1	1986
185. S&W Foundation Contractors (294) Richardson, TX Provides foundation, drainage, & structural repair svcs.	1,392	2,014	135	D	E	45	5	1986
186. Tova Industries Louisville, KY Mfrs. dehydrated food prods.	1,383	2,936	198	C	C	30	9	1985
187. Hub City Florida Terminals Orange Park, FL Provides freight-transportation svcs.	1,375	21,738	1,474	D	D	14	3	1986
188. U.S. Computer Maintenance (113) Farmington, NY Provides on-site maintenance of DEC & Sun computer systs.	1,371	4,678	318	B	B	40	8	1986
189. American Fastsigns Dallas, TX Franchises computer-generated vinyl-sign centers	1,365	3,457	236	D	C	28	3	1986
190. MRI Manufacturing & Research (242) Tucson, AZ Mfrs. & develops silicone catheters	1,363	2,707	185	C	F	84	16	1985
191. Combined Resource Technology Baton Rouge, LA Mkts. business-cost-reduction svcs.	1,360	1,489	102	A	F	13	4	1986
192. Iconics (31) Foxborough, MA Develops data-acquisition software	1,347	7,250	501	A	F	50	11	1986
193. Software Technical Services Atlanta, GA Provides software consulting svcs.	1,337	2,846	198	A	C	15	3	1983
194. EMC Engineers Denver, CO Provides utilities, facilities, & environmental-engineering svcs.	1,335	3,687	257	D	F	43	4	1976
195. R&R Recreation Products Englewood Cliffs, NJ Provides marketing & product-development svcs.	1,325	3,377	237	C	F	4	2	1979
196. Noble Oil Services Sanford, NC Provides petroleum-waste-recycling svcs.	1,323	2,647	186	D	A	36	5	1984
197. Micro Information Services (94) Mequon, WI Provides computer-networking svcs.	1,318	3,376	238	D	F	25	3	1983
198. Shepard-Patterson Conshohocken, PA Provides info.-technology svcs.	1,318	1,432	101	D	D	32	4	1986
199. Gupta Technologies (156) Menlo Park, CA Develops & distr. database-mgmt.-systs. software prods.	1,318	21,295	1,502	D	C	141	19	1984
200. Computer Service Supply Londonderry, NH Supplies, repairs, & refurbishes computer parts	1,306	2,418	172	C	F	14	4	1987

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

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J. L. HONIGBERG & ASSOCIATES

Chicago

JANICE HONIGBERG

Janice Honigberg agrees with the old saying that God—and success—is in the details. "We don't do anything new here," she says. "We just do a lot of little things a little better than the rest do."

Selling premium fruits and vegetables to wholesalers and supermarkets since 1986, Honigberg has found her edge in the simple promises she makes and keeps every day. She has been known to drive where truckers refuse to go: when a blizzard shut down the mid-Atlantic market, for instance, she delivered the produce herself. To growers who are normally out of touch with their buyers, she feeds key facts about customer likes and dislikes.

Honigberg, like almost 90% of the *Inc.* 500 CEOs, spent years under the stewardship of others. At General Foods she learned consumer marketing; later at Phibro-Salomon and then Louis Dreyfus she immersed herself in international markets and sourcing abroad. She puts it quite simply: "In each position I learned one part of the puzzle."

PHOTOGRAPH ANDY GOODWIN

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range* '91	Profit range* '87	No. of employees '91	No. of employees '87	Date founded
201. Fostec Auburn, NY Mfrs. fiber optics for illumination	1,305%	$2,009	$143	D	F	28	11	1987
202. DAZSER & DAZSER/MD (82) Tampa, FL Subfranchises Jani-King commercial cleaning operations	1,301	5,171	369	F	A	16	5	1986
203. Comprehensive Technologies Intl. (169) Chantilly, VA Develops software; provides systs.-integration & networking svcs.	1,298	33,298	2,382	D	D	547	60	1980
204. Stamina Products Springfield, MO Wholesales home exercise equip.	1,290	13,942	1,003	D	F	14	5	1987
205. Union Pointe Construction Salt Lake City, UT Provides general-contracting svcs.	1,289	7,934	571	D	F	18	5	1986
206. Dominant Systems Ann Arbor, MI Integrates computer systs.	1,289	1,625	117	D	D	10	3	1987
207. Country Originals (424) Jackson, MS Designs & wholesales gifts & decorative prods.	1,275	2,517	183	D	D	22	2	1986
208. Audio Partners Auburn, CA Publishes books on cassette	1,273	1,579	115	D	D	9	1	1987
209. American Packaging & Assembly Albertson, NY Provides contract packaging svcs.	1,267	1,764	129	A	F	200	20	1980
210. Peripheral Land (80) Fremont, CA Integrates mass-storage prods. for microcomputers	1,264	25,140	1,843	D	D	106	25	1985
211. Taggart Cody, WY Manages restaurants, trucking co., mining facility, & gas distributors	1,263	15,669	1,150	F	F	230	36	1986
212. Metrographics Printing & Computer Svcs. Fairfield, NJ Provides printing & computer svcs.	1,261	2,015	148	C	D	10	2	1987
213. Securities Service Network (478) Knoxville, TN Provides investment-brokerage svcs.	1,260	4,636	341	D	C	73	5	1983
214. St. Supery Vineyards & Winery Rutherford, CA Produces & sells wine	1,249	3,453	256	F	F	60	6	1982
215. U.S. Hospitality Nashville, TN Publishes hotel-guest-svcs. directories	1,245	1,385	103	A	D	18	3	1986
216. Research Information Systems Carlsbad, CA Provides computer software & info. svcs.	1,243	3,868	288	A	A	45	5	1982
217. Camelot Systems Haverhill, MA Mfrs. automated liquid-dispensing systs.	1,237	4,654	348	D	E	35	10	1987
218. Piedmont Group Oakland, CA Provides photocopying & desktop-publishing svcs.	1,235	2,029	152	F	F	25	5	1987
219. Fulton Computer Products Rockville Centre, NY Resells computer hardware, software, & periph.	1,229	13,276	999	C	C	20	7	1982
220. Pet Ventures Arlington, VA Operates retail pet-food & pet-supplies stores	1,228	5,829	439	F	C	70	12	1886
221. IQ Software Norcross, GA Develops & mkts. software programs	1,226	7,795	588	A	D	70	10	1984
222. HazWaste Industries Richmond, VA Provides environmental-consulting svcs.	1,219	11,453	868	D	F	159	30	1987
223. Small Systems Management (461) Wilmington, DE Sells, svcs., & installs PCs & LANs	1,218	2,294	174	D	F	7	3	1985
224. Carlson Co. Newport Beach, CA Manages commercial property	1,215	2,209	168	A	B	57	13	1986
225. International Computer Graphics Fremont, CA Distr. computer-aided-design periph.	1,209	23,576	1,801	D	D	28	6	1984
226. Personnel Management (35) Shelbyville, IN Provides temporary-help svcs.	1,207	9,488	726	D	D	45	7	1986
227. System Connection (40) Provo, UT Mfrs. & distr. computer cable & accessories	1,204	6,468	496	C	C	50	4	1985
228. Telamon (368) Indianapolis, IN Distr. & svcs. telecommunications equip.	1,204	9,490	728	D	E	40	8	1984
229. Data Sciences (455) Roseville, MN Mfrs. instruments for biological research	1,202	2,005	154	D	F	33	10	1983
230. Fisher Industrial Services Glencoe, AL Runs hazardous-waste-mgmt. facility	1,200	6,528	502	C	B	78	17	1985
231. Neumann Developments Janesville, WI Builds homes & commercial projects & develops real estate	1,200	17,446	1,342	C	C	40	3	1980
232. Van G. Miller Waterloo, IA Operates buying group for home-medical-equip. cos.	1,197	3,060	236	A	F	13	5	1986
233. Jackson Hewitt Tax Service Virginia Beach, VA Provides income-tax-preparation svcs.	1,197	4,447	343	A	F	72	6	1985
234. Sonetics (222) Portland, OR Mfrs. communication equip. for high-noise environments	1,194	3,390	262	C	B	28	4	1983
235. Diversified Pacific Construction Irvine, CA Provides general-contracting & construction-mgmt. svcs.	1,189	11,616	901	D	E	16	6	1979

* A: 16% or more; B: 11% to 15%; C: 6% to 10%; D: 1% to 5%; E: Break-even; F: Loss

INC. 500

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TAGGART LIMITED

Cody, Wyo.

JAMES TAGGART

What do a fast-food restaurant, a gas station, a mining company, and a trucking company all have in common? Answer: one owner who gets bored easily.

James Taggart admits his is a motley collection, but points out that all his companies are in "basic industries—low profile, low status, but profitable." An example: "A Kentucky Fried Chicken located in a small town outside the metro area," he says. "It's a deal with limited buyers, but that doesn't mean it's not profitable." Taggart confesses he relies heavily on great managers to hold his menagerie together. How does he find them? Heavy emphasis on a one- to two-hour psychological test for prospective hires. He adds, "Every time we've tried to discount the test, we end up regretting it."

Before launching his own company, in 1986, Taggart worked as an investment banker. Frankly, he says, "I got sick of doing deals for other people, and I hated wearing ties." As good a reason as any to start a company.

PHOTOGRAPH DEVENDRA SHRIKHANDE

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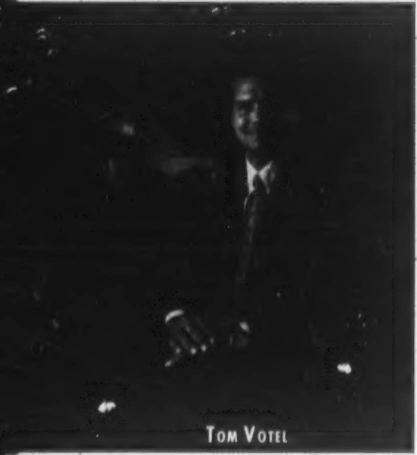
ERGODYNE

St. Paul, Minn.



TOM VOTEL

Friends might have wondered if Tom Votel had lost his mind the day he agreed to take over his dad's company. Bankruptcy was a breath away, almost every employee had either quit or been fired, and after two years spent peddling its wares, Ergodyne still didn't have one customer. "All that was left was a stockroom clerk, a secretary, and me," Votel recalls. That was six years ago. Today Ergodyne nears sales of $30 million and is the largest producer of safety equipment for repetitive stress disorders such as carpal tunnel syndrome.

What shifted? Mostly the distribution strategy. At first Ergodyne marketed to insurance companies, hoping they'd recommend the product line to their customers. Far better has been the decision to sell directly to companies with employees at risk. It's not too hard a sell, either, when $56 billion is spent in this country on back injuries alone.

What does Dad think, watching his son breathe new life into his company? "He thinks it's real cool," says the younger Votel.

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range* '91	Profit range* '87	No. of employees '91	No. of employees '87	Date founded
236. Impact Printhead Services (87) Austin, TX Refurbishes printhead components in dot-matrix printers	1,180%	$6,683	$522	B	A	104	10	1984
237. Associated Family Photographers Phoenix, AZ Provides family-portrait photography	1,173	24,658	1,937	D	D	700	200	1984
238. J.B. Dollar Stretcher Magazine (303) Richfield, OH Publishes advertising-coupon magazine	1,162	1,565	124	C	F	7	3	1985
239. Inside Communications Boulder, CO Publishes cycling books & magazines	1,156	2,863	228	F	F	19	6	1987
240. LBS Capital Management Safety Harbor, FL Provides investment advice & money-mgmt. svcs.	1,154	2,031	162	A	B	10	3	1986
241. IVT Limited Huntington Station, NY Provides consulting & finan.-research svcs.	1,151	2,665	213	C	D	4	2	1986
242. Compusense Bedford, NH Develops & integrates computer software & hardware	1,148	1,597	128	A	A	18	2	1983
243. Ergodyne St. Paul, MN Designs, mkts., & sells ergonomic safety equip.	1,147	12,385	993	B	A	27	5	1983
244. Electronic Ballast Technology Torrance, CA Designs, develops, & mfrs. ballasts for fluorescent lamps	1,146	42,218	3,389	C	E	450	55	1982
245. United Staffing (3) Troy, NY Provides employee-leasing svcs.	1,141	33,761	2,720	F	F	42	17	1986
246. Restek Bellefonte, PA Mfrs. gas chromatography prods.	1,137	6,445	521	A	C	61	10	1985
247. Systems & Programming Solutions Milwaukee, WI Provides computer consulting svcs. & custom software	1,135	1,519	123	B	A	25	2	1987
248. Spray-Tech (332) Longwood, FL Provides exterior home improvements	1,131	17,070	1,387	D	D	110	17	1982
249. Directed Electronics (241) Vista, CA Mfrs. electronic automotive-security prods.	1,127	35,222	2,871	D	D	95	38	1986
250. Coverall North America (274) San Diego, CA Franchises commercial cleaning svcs.	1,127	18,302	1,492	D	C	125	18	1985
251. Computerized Diagnostic Imaging Center Riverside, CA Operates radiology imaging centers	1,127	10,413	849	B	B	60	20	1987
252. DataLOK (305) Los Angeles, CA Provides document storage, retrieval, & delivery svcs.	1,125	3,174	259	B	F	41	12	1984
253. Charter Oak Consulting Group Hartford, CT Provides mgmt.-consulting svcs.	1,121	3,652	299	F	C	10	4	1987
254. Delta Environmental Consultants (19) St. Paul, MN Provides environmental-consulting svcs.	1,116	44,528	3,661	D	C	509	88	1986
255. Southern Audio Services (132) Baton Rouge, LA Mfrs. audio equip. for trucks	1,116	8,951	736	C	D	61	11	1983
256. Computer Equity Chantilly, VA Integrates telecommunications & computer systs.	1,115	11,922	981	D	F	49	5	1987
257. Applied Computer Technology Fort Collins, CO Mfrs. & sells computer prods. & svcs.	1,113	5,384	444	D	F	25	2	1986
258. Envoy Global Portland, OR Provides business telecommunications svcs.	1,110	3,969	328	D	F	30	8	1986
259. Key Construction (367) Wichita, KS Provides general-contracting svcs.	1,097	12,489	1,043	C	D	50	10	1978
260. Advantage Construction & Remodeling Arlington, TX Provides residential remodeling svcs.	1,096	1,974	165	C	B	21	5	1985
261. European Toy Collection Portage, IN Designs, mfrs., & imports children's gifts & toys	1,095	2,342	196	D	C	9	1	1985
262. National Catastrophe Adjusters (500) Indianapolis, IN Provides catastrophic-insurance-adjusting svcs.	1,092	1,574	132	D	F	32	6	1984
263. National Contract Staffing (112) Las Vegas, NV Operates employee-leasing co.	1,088	24,952	2,100	D	F	20	3	1985
264. Sentinel Systems Hampton, VA Distr. AT&T security prods.	1,086	4,601	388	D	F	15	6	1985
265. Hospitality Network Henderson, NE Provides pay movies & cable TV to hotels	1,081	14,885	1,260	F	F	65	12	1983
266. Barclays Law Publishers (234) S. San Francisco, CA Provides info. svcs. for legal profession	1,079	8,243	699	A	A	65	9	1984
267. First Benefit (255) Anderson, IN Provides health-care mgmt. for employee-benefits plans	1,073	5,253	448	D	A	98	9	1985
268. JMR Electronics (430) Northridge, CA Mfrs. computer periph.	1,070	11,627	994	C	D	141	21	1982
269. InfoSource (268) Winter Park, FL Develops PC training software	1,067	1,506	129	E	F	42	3	1983
270. Maritime Services Hood River, OR Provides ship-construction svcs.	1,065	3,904	335	E	E	30	4	1986

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH STEVE NIEDORF

INC. 500

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LAI, VENUTI & LAI

Santa Clara, Calif.

CALBERT LAI

When Calbert Lai started his advertising agency, he had one unbendable rule: never hire anyone from the ad business. "Too many ad people are too arrogant to stick to a budget or a schedule," Lai says. "I look for people who know what it's like to have the shoe on the other foot."

Noted for fast turnarounds, Lai, Venuti & Lai turns out creative work in a week, whereas most agencies take three. And it's apparently not at the expense of creativity. Cal Lai guesses he turns away one client a week. Servicing Silicon Valley's high-tech stars, Lai specializes in making bits and bytes sizzle for the consumer.

And while most agencies on Madison Avenue claim that creativity can't be quantified, Lai insists it can. "We agree on measures from the start, and if we don't make them, I tell the client to fire me," he says. So far no one has.

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range* '91	Profit range* '87	No. of employees '91	No. of employees '87	Date founded
271. American Cargo Systems Overland Park, KS Provides transportation-brokerage svcs.	1,064%	$5,784	$497	D	F	14	3	1986
272. GS Industries Pasadena, TX Sells & svcs. communication & navigation electronics for ships	1,063	2,001	172	D	A	10	2	1987
273. Scientech (247) Idaho Falls, ID Provides nuclear-safety, environmental, & security svcs.	1,062	21,489	1,849	D	C	198	26	1983
274. A.M. Express (188) Escanaba, MI Provides trucking & heavy-hauling svcs.	1,062	1,754	151	D	B	24	3	1985
275. Sahara Bountiful, UT Provides construction svcs.	1,056	15,143	1,310	C	C	27	7	1985
276. Broadcast Plus Productions Universal City, CA Provides prod. equip. & svcs. to TV industry	1,050	1,564	136	C	F	2	1	1982
277. Vector Engineering Grass Valley, CA Provides solid-waste-mgmt. consulting svcs.	1,048	2,135	186	D	C	32	10	1986
278. World Travel Partners Atlanta, GA Provides travel-mgmt. svcs.	1,043	176,781	15,463	D	D	425	120	1987
279. Lai, Venuti & Lai (454) Santa Clara, CA Provides advertising svcs.	1,041	1,745	153	C	A	12	4	1985
280. Van Mar (219) East Brunswick, NJ Mfrs. & sells women's intimate apparel	1,035	26,718	2,355	D	D	125	14	1980
281. Vanguard Automation Tucson, AZ Mfrs. custom automated-assembly systs.	1,034	6,748	595	D	C	96	1	1984
282. AST/The Data Group Chalfont, PA Provides software applications & svcs.	1,032	8,571	757	A	A	65	6	1979
283. S. Cohen & Associates McLean, VA Provides energy- & environmental-consulting svcs.	1,027	9,058	804	D	C	45	8	1981
284. Achen-Gardner Chandler, AZ Provides general-contracting svcs.	1,025	8,529	758	D	D	55	5	1986
285. DataServ Farmington Hills, MI Provides technological integration svcs.	1,022	4,173	372	B	C	25	6	1986
286. GET Travel (243) Walnut Creek, CA Provides group travel arrangements	1,021	4,025	359	D	D	20	2	1985
287. Groundwater & Environmental Svcs. (167) Wall, NJ Provides environmental-consulting svcs.	1,019	15,563	1,391	A	C	145	12	1985
288. Huckell/Weinman Associates Kirkland, WA Provides economics & environmental-planning consulting svcs.	1,012	1,245	112	C	E	9	2	1986
289. DCT Systems (275) St. Paul, MN Sells & svcs. microcomputers	1,006	103,696	9,372	D	D	189	27	1984
290. Auto-Soft (229) Bountiful, UT Develops & mfrs. inventory-control software	1,001	5,537	503	B	D	45	5	1985
291. Computer Communication Waterbury, CT Provides sales & support of critical core computer components	999	9,796	891	B	B	16	4	1984
292. Hernandez Engineering (145) Houston, TX Provides engineering & technical svcs.	998	16,977	1,546	D	D	345	24	1983
293. Design Fabricators Boulder, CO Mfrs. custom commercial fixtures & furniture	998	3,260	297	B	D	53	10	1987
294. Label Technology Merced, CA Mfrs. & prints labels	997	3,137	286	D	F	30	5	1986
295. Eastern Group (217) Alexandria, VA Explores for & produces gas & oil, & provides related svcs.	990	52,794	4,844	D	B	90	32	1981
296. Papa John's International (380) Louisville, KY Sells take-out pizza	980	19,254	1,782	C	F	220	15	1985
297. Communications, Marketing & Distr. Svcs. Atlanta, GA Warehouses, distr., designs, & prints corporate literature	980	2,085	193	C	E	43	3	1987
298. Sonny Hill Motors Platte City, MO Sells & svcs. automobiles	978	139,808	12,972	D	D	350	40	1987
299. Binary Arts (474) Alexandria, VA Mfrs. & imports puzzles, mazes, maps, & games	970	2,001	187	B	F	5	2	1985
300. Electronic Label Technology (98) Tulsa, OK Mkts. systs. for creating bar-coded labels & tags	964	15,340	1,442	D	D	63	6	1985
301. Artistic Impressions (458) Lombard, IL Sells paintings & lithographs through home parties	962	7,519	708	C	F	38	7	1985
302. ESW Dyer, IN Provides custom industrial training	961	1,411	133	C	F	30	4	1987
303. MC Strategies Atlanta, GA Provides consulting svcs. to health-care organizations	959	4,046	382	C	B	110	17	1986
304. Engineering Management & Economics Rockville, MD Provides computer systs. engineering, prods., & consulting svcs.	955	1,203	114	C	F	15	3	1987
305. Govind & Associates Corpus Christi, TX Provides engineering consulting svcs.	955	7,545	715	D	D	170	25	1984

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: EDWARD CALDWELL

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range*		No. of employees		Date founded
				'91	'87	'91	'87	
306. USA Direct (293) Manchester, PA Provides direct-mail svcs.	954	$18,164	$1,723	C	F	331	17	1985
307. Sterling Environmental Services Amherst, NY Provides hazardous-waste-mgmt. svcs.	951	4,121	392	C	D	8	3	1985
308. Evergreen Environmental Group (73) Crestwood, KY Provides environmental-engineering svcs.	950	4,230	403	A	A	29	5	1986
309. Chico's (198) Fort Myers, FL Sells women's apparel & accessories	945	23,177	2,217	C	B	240	45	1983
310. Fitec International Memphis, TN Imports & exports commercial fishing prods.	944	34,397	3,296	D	C	480	5	1984
311. TL Care (271) San Francisco, CA Mfrs. & sells infant clothing & accessories	941	3,404	327	D	D	6	2	1985
312. ABA Personnel Services San Francisco, CA Provides employment-search svcs.	937	4,408	425	D	F	12	4	1986
313. United International Engineering Albuquerque, NM Provides engineering svcs.	937	13,710	1,322	B	D	175	14	1982
314. Aztech Controls (85) Mesa, AZ Distr. valves & fittings	935	6,252	604	C	D	20	7	1986
315. Koch International Westbury, NY Records, distr., & mkts. music	931	14,014	1,359	D	D	60	8	1987
316. American Playworld Ogden, UT Mfrs. playground equip.	931	13,903	1,349	B	A	157	29	1978
317. Z-Barten Productions Culver City, CA Mfrs. confetti, gifts, & craft items	928	1,449	141	B	F	25	4	1984
318. Siciliano (411) Springfield, IL Provides construction svcs.	927	7,588	739	D	C	50	8	1968
319. Main Street Muffins Akron, OH Mfrs. frozen bakery prods.	924	1,106	108	C	F	17	6	1986
320. McCool's Carpet Outlet Kokomo, IN Sells flooring prods.	924	2,007	196	B	B	7	1	1967
321. Barclays Oxygen Homecare Englewood, CO Provides in-house oxygen svcs.	920	3,643	357	A	B	32	6	1985
322. ESE Marshfield, WI Provides process control & data-acquisition engineering svcs.	916	2,540	250	D	C	25	3	1981
323. Athletic Fitters (256) Eden Prairie, MN Retails athletic shoes & apparel	916	8,115	799	B	B	41	4	1983
324. Roux Associates (233) Huntington, NY Provides environmental-consulting & -mgmt. svcs.	909	11,895	1,179	D	D	108	20	1981
325. McNerney Heintz (66) Barrington, IL Provides administrative mgmt. svcs. for medical organizations	904	9,357	932	C	C	171	47	1985
326. Precision Response (285) Miami, FL Provides integrated-direct-marketing svcs.	904	16,182	1,612	B	D	250	63	1981
327. Canvasbacks (495) Milwaukee, WI Designs & mfrs. women's sportswear	904	6,744	672	B	C	50	13	1978
328. Fenders & More Nashville, TN Distr. auto parts & accessories	903	9,742	971	D	F	55	6	1986
329. Creative Producers Group St. Louis, MO Produces videos, plans events, & provides training svcs.	902	1,403	140	B	D	10	3	1985
330. Deckers Carpinteria, CA Mfrs., distr., & mkts. sandals	899	11,617	1,163	B	F	200	37	1973
331. Medical Equipment Repair Services Sarasota, FL Sells & svcs. respiratory equip.	898	1,058	106	D	F	14	4	1984
332. MWW/Strategic Communications (158) River Edge, NJ Provides PR svcs.	893	3,138	316	C	D	24	5	1986
333. Leopardo Construction Glendale Heights, IL Provides general-contracting & consulting svcs.	890	55,248	5,583	D	F	105	27	1979
334. Wasser Industries Seattle, WA Provides technical & marketing-communications svcs.	887	3,722	377	D	D	7	2	1980
335. Spec-line Laminated Products Doraville, GA Mfrs. furniture, cabinets, millwork, & specialty wood prods.	884	1,457	148	B	D	31	5	1986
336. Geerlings & Wade Canton, MA Retails mail-order premium wines	880	3,077	314	C	F	13	2	1986
337. Nature's Recipe Pet Foods (170) Corona, CA Mfrs. specialty pet food	880	21,182	2,162	A	A	40	4	1981
338. Safesite Records Management Billerica, MA Provides business-records-mgmt. svcs.	875	6,366	653	F	F	152	25	1986
339. Tri-Services Chesapeake, VA Provides contract general svcs. to the military	873	1,401	144	D	E	50	15	1987
340. MMI of Mississippi (223) Crystal Springs, MS Mfrs. health-care furniture & laboratories	871	2,698	278	A	F	14	9	1986

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

INC. 500

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GEERLINGS & WADE

Canton, Mass.

PHILLIP WADE & HUIB GEERLINGS

PHOTOGRAPH: RICHARD MITCHELL

Phillip Wade and Huib Geerlings were roommates and office mates, and each was frustrated with the life of a certified public accountant. They were delivered from their angst in 1986, when they decided to start a business long popular in Europe but rare in the United States—selling premium wine via mail.

To 24,000 subscribers, Geerlings & Wade offers prices averaging 25% less than those of local liquor stores. Every three weeks customers receive a four-page brochure detailing the choice wine and giving tasting notes and tips on what to eat with that wine, along with a brief history of the vineyard. "We see education as part of our business," Wade says, adding that wine aficionados often hunger for more background than a neighborhood retailer can offer. As for the future, Geerlings insists he's with this company for the long haul, but just a few doors away, Wade outlines a thoughtful exit strategy, adding that he and his partner plan to be out of the business in two years. Who knows?

INC. 500

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TOUCHSTONE RESEARCH LABORATORY

Triadelphia, W. Va.

ELIZABETH KRAFTICIAN & BRIAN JOSEPH

As stories go, Elizabeth Kraftician and Brian Joseph have a doozy. Armed only with a dusty secondhand microscope, the two launched their research-and-development company in the basement of a former monastery in 1980. Six years later the two decided to take their partnership one step further—to the altar. And three years later, while recuperating from surgery, Kraftician crafted a high-stakes NASA contract with her husband from her hospital bed.

While American industry divests itself of costly R&D departments, Kraftician and Joseph offer cost-efficient, fast-turnaround R&D for hire. Touchstone services everyone from lone inventors to *Fortune* 500 companies, and its employee roster reads like a *Who's Who* in engineering and industrial problem solving—many employees have decades of previous experience. Kraftician admits she tries "to tease" great minds out of retirement. Says this CEO: "I'm confident these people could rebuild the universe if they needed to."

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range* '91	Profit range* '87	No. of employees '91	No. of employees '87	Date founded
341. Travel Store Los Angeles, CA Provides travel svcs.	868%	$23,670	$2,445	D	D	40	16	1975
342. Oreman Sales (162) Kenner, LA Distr. computers & accessories	868	61,987	6,405	C	D	72	12	1980
343. Flexible Personnel Fort Wayne, IN Runs temporary-employment service	868	7,964	823	F	F	29	10	1980
344. Commonwealth (236) Cincinnati, OH Provides contract warehousing svcs.	866	4,184	433	D	A	30	3	1985
345. Staff Leasing Bradenton, FL Leases permanent employees to businesses	864	154,447	16,027	D	D	11,310	1,001	1984
346. North American Processing Niles, IL Imports & distr. meat prods.	863	137,164	14,237	D	D	13	7	1987
347. Touchstone Research Laboratory Triadelphia, WV Provides R&D svcs.	859	2,291	239	D	F	23	11	1980
348. Remote Control International (79) Carlsbad, CA Provides software-publishing svcs.	858	4,263	445	D	D	50	10	1985
349. Southwest Royalties Midland, TX Produces oil & gas	856	17,589	1,840	D	B	70	17	1983
350. ERM–Rocky Mountain Englewood, CO Provides environmental-consulting svcs.	856	4,750	497	B	B	56	6	1986
351. Applied Utility Systems Santa Ana, CA Provides engineering consulting svcs.	852	6,813	716	D	D	27	7	1985
352. EDECO Tulsa, OK Provides engineering consulting svcs. to petroleum & gas industry	843	7,140	757	C	F	170	19	1972
353. SoMat Urbana, IL Provides data-acquisition-&-analysis-systs. svcs.	841	1,750	186	D	F	10	4	1982
354. Litle & Co. (16) Salem, NH Provides credit-card-processing svcs.	841	45,954	4,885	D	F	101	25	1986
355. Saturn Electronics & Engineering (307) Rochester Hills, MI Provides electronic- & electromechanical-engineering svcs.	841	14,975	1,592	C	D	325	20	1985
356. R&M Business Systems Elk Grove Village, IL Sells & svcs. office equip.	840	3,534	376	C	F	38	6	1987
357. System Resources (264) Burlington, MA Provides high-tech engineering svcs.	836	12,682	1,355	C	C	139	36	1985
358. Metters Industries (463) McLean, VA Provides systs.-engineering svcs.	836	29,406	3,142	D	F	350	54	1981
359. MDM Engineering (398) San Clemente, CA Provides engineering & technical svcs.	836	10,135	1,083	C	C	125	23	1984
360. Enecotech Group Denver, CO Provides environmental-consulting svcs.	830	14,990	1,611	C	C	200	18	1984
361. Griffis/Blessing Colorado Springs, CO Manages, invests in, & develops real estate	830	1,116	120	A	F	25	4	1985
362. Shields Health Care Brockton, MA Provides medical diagnostic-imaging svcs.	829	28,372	3,054	A	A	120	9	1986
363. Allsup (333) Belleville, IL Provides claims svcs. to health-care industry	827	6,036	651	A	C	89	9	1984
364. Teubner & Associates Stillwater, OK Researches & develops communications software	825	2,247	243	C	F	16	1	1983
365. American International Construction Houston, TX Builds metal structures & mini-warehouses	821	20,245	2,199	D	B	200	7	1985
366. Stretchco Fabrics Hawthorne, NJ Mfrs. stretch-knit fabrics	820	10,015	1,088	D	D	7	3	1987
367. Routing Technology Software (232) Vienna, VA Develops & supports Roadshow software	820	6,736	732	A	F	65	8	1983
368. MBS Communications Cheshire, CT Provides telephone-answering svcs.	817	1,220	133	B	F	33	3	1986
369. Team Spirit (365) Omaha, NE Retails team apparel	817	13,470	1,469	B	B	90	25	1985
370. Gravity Graphics Brooklyn, NY Silk-screens activewear	816	2,556	279	D	C	42	5	1984
371. Hofgard Benefit Plan Administrators Boulder, CO Administers employee-benefits plans	813	1,370	150	F	F	28	3	1986
372. S&S Management & Consulting Somerset, MA Provides mgmt.-consulting svcs. to small & midsize cos.	810	2,166	238	B	F	7	5	1986
373. Saloom Furniture (272) Gardner, MA Mfrs. tables & chairs	807	5,740	633	C	C	65	17	1981
374. Option Technologies Mendota Heights, MN Develops & distr. software & hardware	805	995	110	C	F	7	1	1986
375. Micro Dynamics (245) Silver Spring, MD Develops & mkts. document-imaging & text-retrieval prods.	803	6,585	729	D	E	55	14	1985

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: TERRY CLARK

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GENESIS AUTOMATION

Shelton, Conn.

SAL BROGNA & RICHARD CASLER

Next time you order a soft drink to go at your local Roy Rogers, don't be surprised if Genny fills your cup. Not your average blond, bopping teenager, Genny is a robot. And her creators, Richard Casler and Sal Brogna, are betting she'll be a boon to the fast-food business.

Tired of watching their margins shrink thanks to increased competition and high turnover, fast-food czars—like Burger King and McDonald's—are looking to Genny to speed service, pump more customers through, and make good on their promise of "fast." Typically, Genny shaves a third off the average order time. Speedier lines mean fewer hungry patrons taking their business elsewhere because of the wait, as well as the chance to serve 10 to 15 more customers a day.

As space-age as all this sounds, the cofounders agree their greatest challenge is extremely earthbound. Building the robots is easy, they say. What's hard is uncovering what the customers' needs really are.

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range*		No. of employees		Date founded
				'91	'87	'91	'87	
376. Datastorm Technologies Columbia, MO Develops & publishes software	803%	$17,821	$1,974	A	D	93	11	1985
377. Genesis Automation Shelton, CT Develops & mfrs. robotic equip. for fast-food industry	800	2,088	232	F	A	13	5	1986
378. Refco Investments Melrose Park, IL Leases packaging & processing equip.	799	1,178	131	A	A	4	2	1984
379. Environmental Operations St. Louis, MO Provides environmental-consulting svcs.	799	1,824	203	D	D	29	4	1986
380. ABL Electronics Hunt Valley, MD Mfrs. & distr. computer & networking cabling & accessories	792	3,204	359	D	C	39	18	1981
381. Barry T. Chouinard Northfield, VT Dyes textiles & distr. T-shirts	791	3,672	412	C	B	20	6	1975
382. American Insurance Management Group Atlanta, GA Provides insurance-brokerage svcs.	791	15,709	1,764	D	F	100	12	1986
383. Commercial Benefits Woodland Hills, CA Sells life & health insurance; provides employee-benefits svcs.	790	2,563	288	A	D	20	7	1987
384. Compu-Call N. Attleboro, MA Purchases & sells computer hardware in the IBM marketplace	789	5,202	585	D	D	9	3	1987
385. Terra Vac (284) San Juan, PR Provides environmental-cleanup svcs.	789	14,244	1,602	C	B	32	15	1985
386. Integratrak Seattle, WA Develops telemanagement software	789	2,186	246	B	F	27	8	1986
387. Allen Systems Group Naples, FL Sells computer software	788	8,198	923	C	B	120	10	1986
388. Wek Enterprises Buena Park, CA Mfrs. cotton clothing	783	7,358	833	D	D	35	4	1987
389. EnviroSearch International Salt Lake City, UT Provides environmental-consulting & -engineering svcs.	783	2,111	239	D	B	39	5	1984
390. Landex Construction San Diego, CA Provides commercial & light industrial construction svcs.	782	7,024	796	D	F	21	4	1983
391. Traco Manufacturing Orem, UT Mfrs. & resells portable shrink-wrap machines & other prods.	778	2,827	322	B	B	14	5	1986
392. Modern Technologies (172) Dayton, OH Provides technical & engineering svcs.	777	32,936	3,756	C	B	477	81	1985
393. Tadisco Jewelry New York, NY Mfrs. jewelry	772	4,003	459	D	F	100	3	1986
394. Integrity Industries Kingsville, TX Mfrs. specialty chemicals	772	6,253	717	C	D	16	4	1986
395. Penn Property & Casualty (443) Lemoyne, PA Provides insurance & surety-bond brokerage svcs.	770	3,690	424	D	E	10	2	1985
396. Concord Holding New York, NY Administers & distr. mutual funds	770	13,959	1,605	A	F	56	7	1987
397. Knowledge Systems (214) Cary, NC Provides object-technology software & svcs.	768	2,040	235	F	F	29	2	1986
398. Heritage Asset Management Group (407) Dallas, TX Provides real-estate svcs.	767	1,752	202	D	A	72	14	1985
399. Asia Source Fremont, CA Wholesales computer parts & systs.	765	67,021	7,750	D	E	50	1	1987
400. Logos Systems Houston, TX Develops health-care software & svcs.	765	908	105	F	F	10	3	1987
401. Sun Coast Resources Houston, TX Wholesales gasoline & diesel fuel	764	86,154	9,972	D	D	14	7	1985
402. Zeiders Enterprises (330) Woodbridge, VA Provides professional mgmt. svcs.	764	3,515	407	D	C	90	10	1984
403. Carretas Albuquerque, NM Designs & fabricates kiosks, pushcarts, & store fixtures	761	1,868	217	D	F	30	4	1987
404. Marketing Profiles (190) Maitland, FL Develops & mkts. database software for finan. institutions	760	8,379	974	C	B	53	5	1984
405. Summit Builders Phoenix, AZ Provides general-contracting svcs.	760	27,216	3,164	D	D	49	21	1986
406. Microserv (321) Kirkland, WA Provides technical svcs.	754	5,485	642	D	B	98	14	1986
407. Optimation Technology Rush, NY Provides industrial-engineering & systs.-integration svcs.	753	1,441	169	C	F	25	5	1985
408. Turbine Consultants Milwaukee, WI Provides svcs. & repairs to electric-utility cos.	750	5,294	623	A	A	11	4	1984
409. Oakville Forest Products (152) Oakville, WA Produces wood chips & pulp for paper industry; dries lumber	750	6,883	810	D	A	17	7	1986
410. Strifler Group Dallas, TX Provides info.-systs. consulting svcs.	749	2,200	259	A	A	30	5	1984

* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: CHRISS WADE

INC. 500

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GULF COAST HAIR CARE

Panama City, Fla.

DAVID FLAAT

Four months ago Mary Easom found herself short on money to pay her home mortgage. Three days later her boss, David Flaat, lent her the money. Two months ago Dorothy Haw's car-repair bill caught her off guard. Five days later her boss, Dave Flaat, paid the bill. While Flaat insists he's in the hair business, not the banking business, he says it's his job to be there for his employees.

And the numbers prove he's right. The owner of 11 Cost Cutter franchises, Flaat typically reports weekly sales of $8,000 for each, compared with the average Cost Cutter franchise's $3,500. Catering to a walk-in $7.95 snip-'n'-go clientele, his salons sell almost twice the high-margin shampoos and conditioners that most of his fellow franchisees' do. From tying salary to salon performance to biweekly drawings for prizes like VCRs and movie passes—to extending personal loans—Flaat is always searching for new ways to keep employees happy and on their toes.

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range* '91	Profit range* '87	No. of employees '91	No. of employees '87	Date founded
411. Gulf Coast Hair Care (185) Panama City, FL Operates hair-salon franchise	749%	$2,597	$306	D	F	140	30	1985
412. Kenley Mason, OH Mfrs. & distr. holiday prods.	747	2,583	305	A	F	6	1	1985
413. Plastronics Plus E. Troy, WI Provides custom plastic injection molding	744	4,982	590	D	D	80	15	1985
414. Nutech Laundry & Textiles (457) Hyattsville, MD Manages laundry-plant & hotel-laundry systs.	744	3,901	462	C	F	130	20	1984
415. Western Fiberglass Windsor, CA Mfrs. fiberglass secondary containment	740	2,074	247	F	D	30	5	1983
416. Boston Preparatory New York, NY Mfrs. sportswear	737	1,172	140	A	C	4	1	1986
417. Field Brothers Construction (131) Marion, OH Provides general-contracting svcs.	736	12,115	1,450	C	B	155	25	1975
418. HMA Behavioral Health (339) Worcester, MA Provides medical & mental-health screening svcs.	731	2,268	273	D	B	22	6	1982
419. SVL Analytical Kellogg, ID Provides environmental-monitoring, -cleanup, & -analysis svcs.	727	3,068	371	D	F	75	7	1972
420. OCS Group Pittsford, NY Provides info.-mgmt., engineering, & technical-writing svcs.	726	5,661	685	B	D	119	18	1982
421. MIC Industries Reston, VA Mfrs. mobile auto-building machines	724	20,696	2,513	A	D	98	7	1981
422. TME (410) Houston, TX Develops, finances, & manages outpatient diagnostic-imaging centers	722	12,237	1,489	F	F	171	60	1983
423. Design Basics Omaha, NE Designs, catalogs, & mkts. home plans; publishes home-plans magazine	721	2,111	257	A	F	28	9	1983
424. Arbor Systems Carrollton, TX Mfrs. & mkts. aftermarket computer & communications equip.	721	2,611	318	C	D	16	3	1987
425. Proteus (342) Albuquerque, NM Provides computer-systs.-integration prods.	715	4,883	599	D	C	79	10	1980
426. Lifetime Products (337) Clearfield, UT Mfrs. basketball equip.	715	27,133	3,330	C	D	218	64	1986
427. Gale Group (230) Winter Park, FL Designs, mfrs., & mkts. retail lawn & garden prods.	715	58,086	7,131	F	D	400	80	1981
428. Bulk International (421) Troy, MI Sells candy, nuts, & gifts in bulk	714	16,251	1,997	D	F	138	22	1983
429. Stone Computer & Copier Supply Tulsa, OK Distr. computer & copier supplies	711	2,936	362	D	E	18	5	1986
430. ATV (296) Cleveland, OH Wholesales & distr. computers	710	21,404	2,641	D	F	52	20	1980
431. Pioneer Software Raleigh, NC Develops software	709	2,329	288	B	B	27	4	1986
432. Florida Marketing International Ormond Beach, FL Provides Macintosh training seminars & tutorials	707	7,649	948	A	A	23	8	1987
433. Bendco/Bending & Coiling (418) Pasadena, TX Mfrs. pipes & pressure vessels	704	4,360	542	D	A	53	23	1984
434. Globaltec Titusville, NJ Sells electronic digital balances	702	2,495	311	D	D	16	2	1986
435. Bike Pro USA (488) Phoenix, AZ Mfrs. bicycle packs & bags	700	1,024	128	D	F	26	8	1985
436. Horizon Data (108) Reston, VA Integrates computer & knowledge-based systs.	700	10,382	1,298	C	C	50	12	1983
437. Partnership Group (202) Lansdale, PA Provides child care, elder care, & referral svcs.	699	7,413	928	D	F	100	20	1982
438. Complete Property Services Oldsmar, FL Provides general-contracting & insurance svcs.	698	2,435	305	B	C	25	4	1984
439. Mattern Construction Preston, CT Provides general-contracting svcs.	698	2,865	359	C	A	9	1	1987
440. Quintiles Transnational (402) Morrisville, NC Provides health-care consulting & mgmt. svcs.	697	30,461	3,821	C	C	320	45	1982
441. Sunrise Terrace Fairfax, VA Develops & manages housing for the elderly	697	12,157	1,525	C	C	378	100	1981
442. Sharikon Chantilly, VA Provides engineering & other svcs.	696	14,128	1,774	D	E	193	16	1985
443. Music Tech of Minneapolis Minneapolis, MN Runs private music school specializing in popular music	694	1,406	177	D	D	50	12	1985
444. Northwest Micro Beaverton, OR Integrates microcomputer systs. & distr. microcomputer components	694	7,395	931	D	D	19	4	1987
445. U.S. Xpress (338) Tunnel Hill, GA Provides interstate motor-carrier svcs.	691	141,928	17,932	D	D	2,104	270	1985

* A: 16% or more; B: 11% to 15%; C: 6% to 10%; D: 1% to 5%; E: Break-even; F: Loss

PHOTOGRAPH G. PAUL HAYNES

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HUMANIX TEMPORARY SERVICES

Spokane, Wash.

JULIE PRAFKE

Talk about a twist of fate. For 20 years Julie Prafke was a secretary to some of the biggest executives in town: today some of those same execs are turning to her for a job. Her company, Humanix, is a temporary-placement agency, and, about the turn of events, Prafke calls it the ultimate compliment: "It says volumes about our reputation."

Prafke's foray into temp services appeared doomed when the company she worked for went belly-up after seven months. But an investor eager to recoup the $100,000 he'd pumped into the failed agency offered Prafke the client list and enough backing to start her own company in 1986. Within a year the investor had made back his money, and in two and a half years Prafke bought him out.

As for those early days, she calls them her training ground. "Who knows better than a secretary what it takes to make an employee happy?" Testifying to that, Prafke's turnover rate is about 30% lower than the industry norm.

Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range* '91	Profit range* '87	No. of employees '91	No. of employees '87	Date founded
446. Magnet (334) Washington, MO Mfrs. advertising refrigerator magnets	688%	$12,679	$1,609	C	D	192	25	1982
447. Loan Pricing (161) New York, NY Provides database svcs. to finan. institutions	688	3,717	472	D	F	41	11	1985
448. Energy Dynamics (203) New Berlin, WI Mfrs. diesel electric-generator sets	687	10,088	1,282	D	C	26	7	1984
449. U.S. Structures Richmond, VA Builds wooden patio decks	686	11,000	1,400	F	C	25	4	1980
450. Univest Financial Group Marietta, GA Audits & analyzes mortgages & loan portfolios	686	16,500	2,100	A	F	78	26	1985
451. Source Technologies (356) Charlotte, NC Sells computer printers	683	5,436	694	D	D	16	3	1986
452. Pleasant Co. (69) Middleton, WI Mkts. children's merchandise	683	64,263	8,210	B	F	228	23	1986
453. Skender Construction Palos Hills, IL Provides construction-mgmt. svcs.	682	4,272	546	F	C	28	6	1979
454. GreenLine Bowling Green, OH Grows & processes fresh green beans	682	2,228	285	D	F	32	11	1986
455. Zia Cosmetics (426) San Francisco, CA Mfrs. natural skin-care prods.	679	1,247	160	D	F	16	3	1985
456. Cadmus Group Waltham, MA Provides environmental-consulting svcs.	676	6,453	832	D	D	90	20	1983
457. Buschman Cleveland, OH Mfrs. paper prods.	675	1,310	169	A	D	11	2	1976
458. Megasource (235) Bloomfield Hills, MI Provides health-care consulting svcs. & software	673	7,162	926	A	F	63	13	1983
459. Hazco Services Dayton, OH Distr. safety equip. to hazardous-waste industry	671	11,090	1,438	C	B	65	15	1986
460. Schweitzer Engineering Laboratories (273) Pullman, WA Designs & mfrs. protective relays for electric-utility cos.	670	15,634	2,030	A	A	84	11	1982
461. Humanix Temporary Services Spokane, WA Provides temporary svcs.	670	2,663	346	D	D	9	2	1986
462. PPOM (154) Southfield, MI Provides PPO health-care svcs.	669	12,394	1,612	D	D	115	22	1982
463. Executive Software (76) Glendale, CA Develops & mkts. software for VAX/VMS computers	667	15,210	1,982	B	C	95	12	1981
464. Schnaubelt Shorts (399) Coraopolis, PA Mfrs. & sells designer bicycle apparel	666	1,387	181	E	F	47	37	1983
465. FourGen Software (146) Edmonds, WA Develops & sells accounting software & CASE tools	665	5,051	660	C	C	84	15	1982
466. Forcum/Mackey Construction Ivanhoe, CA Performs commercial & industrial construction work	663	7,963	1,043	D	D	18	14	1983
467. Home Care Affiliates (128) Louisville, KY Provides home health-care svcs.	662	31,157	4,091	D	F	426	133	1986
468. Harmony Schools (480) Princeton, NJ Provides child-care svcs.	661	2,663	350	D	F	104	60	1980
469. Roelynn Business Products Hazlet, NJ Contracts out business-form & commercial printing projects	660	1,041	137	D	F	6	1	1985
470. Posi-Clean Wheeling, WV Rebuilds & mfrs. engine oil coolers & heat exchangers	659	2,019	266	B	D	28	8	1985
471. Mendez Excavation Breckenridge, CO Provides general-contracting svcs.	659	2,906	383	B	A	35	5	1982
472. Loop Restaurant Jacksonville, FL Operates restaurants	658	4,788	632	B	A	75	10	1981
473. Creative Staffing Miami, FL Provides temporary & permanent job-placement svcs.	658	7,144	943	D	D	24	4	1985
474. Cucci International Torrance, CA Mfrs. screen-printed & embroidered apparel	657	2,930	387	C	C	34	3	1981
475. Metalize Texas Bastrop, TX Provides electrochemical metallizing svcs.	656	885	117	E	F	25	5	1985
476. Diplomatic Language Services Arlington, VA Provides language training & translation	655	2,750	364	D	A	122	36	1985
477. SNL Securities Charlottesville, VA Publishes newsletters & databases for finan.-svcs. industry	654	2,337	310	C	F	27	8	1987
478. NationaLease Purchasing Oakbrook Terrace, IL Operates truck-leasing cos.	654	23,664	3,140	D	D	17	6	1965
479. CMS Communications (45) Bridgeton, MO Sells, maintains, & repairs telecommunications equip.	649	18,283	2,440	C	B	152	12	1985
480. Authorized Cellular/Security One Roseville, MI Sells & svcs. cellular phones	646	1,828	245	B	F	20	2	1983

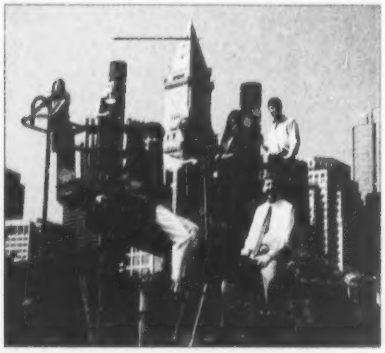
* A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Break-even; F. Loss

PHOTOGRAPH: CRAIG SWEAT

	Company (1991 rank) Business description	Sales growth 1987–91 (% increase)	'91 sales ($000)	'87 sales ($000)	Profit range*		No. of employees		Date founded
					'91	'87	'91	'87	
481.	**Thomure Medsearch** St. Louis, MO Provides physician recruiting & placement svcs.	644	$1,599	$215	B	A	50	4	1987
482.	**DCS Software & Consulting** (388) Dallas, TX Provides IBM-computer consulting svcs.	644	4,439	597	D	D	90	17	1981
483.	**Supplemental Health Care Services** Tonawanda, NY Provides medical-staff-placement svcs.	641	6,515	879	F	C	1,100	40	1984
484.	**AccSys Technology** (206) Pleasanton, CA Designs & mfrs. linear accelerator systs. & related components	640	3,256	440	D	F	22	7	1985
485.	**Visual Concepts Media** Bloomfield, CT Produces corporate videos	638	826	112	D	A	6	2	1987
486.	**De-Mar** Clovis, CA Provides plumbing, heating, & air-conditioning svcs.	632	3,109	425	B	C	35	5	1976
487.	**J and M Laboratories** Dawsonville, GA Develops, mfrs., & researches hot melt equip.	628	2,861	393	A	B	50	8	1985
488.	**Monterey Homes** Scottsdale, AZ Builds luxury communities	627	20,528	2,822	D	F	30	5	1986
489.	**American Teleconferencing Svcs.** (157) Overland Park, KS Provides conference-call svcs.	627	3,462	476	D	A	43	8	1984
490.	**Asosa Personnel** Tucson, AZ Provides personnel recruiting & temporary-help svcs.	627	4,087	562	D	F	22	15	1964
491.	**National Business Group** Atlanta, GA Distr. computer connectivity hardware & software	626	8,652	1,192	D	D	13	4	1987
492.	**CareFlorida** Miami, FL Provides HMO svcs.	624	75,677	10,454	D	F	189	50	1985
493.	**Dan Flickinger Inc.** Seattle, WA Owns contemporary-home-furnishings stores	624	1,802	249	F	F	9	3	1987
494.	**Reunion Time** Tinton Falls, NJ Provides class-reunion-planning svcs.	622	2,511	348	C	F	11	4	1985
495.	**Tracer Research** Tucson, AZ Detects contaminants in soil, water, tanks, & pipelines	620	8,943	1,242	C	F	93	23	1984
496.	**Phoenix Controls** (301) Newton, MA Mfrs. laboratory airflow-control systs.	618	7,662	1,067	D	F	74	8	1985
497.	**Apogee Research** (163) Bethesda, MD Provides finan.-consulting svcs.	614	3,065	429	D	D	35	6	1986
498.	**Mastersoft** (269) Scottsdale, AZ Develops & publishes software	614	2,043	286	A	F	16	5	1986
499.	**Copyco** Deerfield Beach, FL Distr. copiers, faxes, & digital duplicators	614	6,706	939	D	F	89	16	1986
500.	**Falcon Microsystems** Landover, MD Distr. & integrates Macintosh LANs & software	606	138,938	19,679	D	F	249	82	1983

* A: 16% or more; B: 11% to 15%; C: 6% to 10%; D: 1% to 5%; E: Break-even; F: Loss

HOW THE INC. 500 ARE SELECTED



The Inc. *500 team members responsible for this year's listing are (seated, in foreground) Stephanie Gruner and Christopher P. Fontes, a senior at Harvard; (standing, left to right) Merritt T. Carey, a recent graduate of Brown; Betsey Winckler; Sandra Miller; Rachel S. Tsutsumi, a junior at Yale; and Andrew S. A. Macaulay, a senior at Hobart. Not pictured: Vera Gibbons and Phaedra Hise.*

THIS YEAR'S INC. 500 WERE SELECTED FROM more than 21,000 candidates. To be eligible, a company must be independent and privately held; must show at least $100,000 in sales, but no more than $25 million in sales, for 1987; and must show a sales increase between 1990 and 1991. Sales figures for agencies (such as travel agencies, collection agencies, advertising agencies, and so on) are net sales to the company. Regulated banks and utilities are not eligible. We verified information using tax forms and confirmation letters from certified public accountants, and through telephone interviews with company officials. The final ranking is a function of percentage sales growth over the five-year period.

The 1992 *Inc.* 500 list was prepared under the direction of special-reports editor Elyse M. Friedman. Staff writer Elizabeth Conlin wrote the commentary that accompanies the listings.

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REUNION TIME

Tinton Falls, N.J.

DAVE FIORE

Some would say David Fiore goes to absurd lengths to ensure his class reunions are well attended, whether it means scouting out a monk secluded in the hills of Italy or passing the invitation on to a U.S. marine while he's dropping bombs on Libya. But then that's Reunion Time's business.

Organizing class galas used to fall on the shoulders of homemakers, but as more women enter the work force, fewer have the time and energy. Recognizing this need, Fiore quit his job at Prudential Insurance in 1986 and started crashing reunions and asking questions. Now the largest player in the business, Reunion Time promises customers 90% attendance, whereas the average class committee gets 65%. Orchestrating everything from invitations to entertainment to catering, Fiore pulls an event off for the same price a class committee doing its own affair would pay. How? Sheer volume. This Thanksgiving, while Fiore sits down to a turkey dinner, his company will be throwing 50 reunions in five states.

PHOTOGRAPHS: LARRY FORD (TOP); RICHARD MITCHELL (BOTTOM)

BUSINESS FOR SALE
NORTH CAROLINA GOLF RESORT

THE BUSINESS Fairways in the foothills of the Smoky Mountains. A 25-year-old golf resort and championship course where 35,000 rounds are played annually, virtually year-round, in a temperate clime. The 18-hole, 72-par course draws 90% of its income from out-of-town golfers. Golf packages account for 65% of revenues. Memberships, daily fees, and food and beverage sales make up the rest. Facilities include six buildings, among them a rustic clubhouse and a full-service dining room that seats 100. Additional buildings—six cottages and four townhouses—serve as guest accommodations. Adjoining acreage could be developed.

FINANCIAL SUMMARY

	1989	1990	1991
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

PRICE $5 million

OUTLOOK Growth in the market is above par. The number of golfers hitting the greens has soared—it's up nearly 40% in the past five years. With more than two-thirds of this course's clientele returning from year to year, the customer base is stable, if small. The number of rounds played is low for a location that enjoys 70-degree days even in January. Better marketing might attract younger players and more play.

PRICE RATIONALE The owner assigns nearly $3 million of his $5-million price tag to the course itself. At 7 times cash flow, his valuation is generous but not unrealistic. Multiples can range from 4 to 10, experts ~~claim~~. Besides, golf courses typically cost $2 million to $3 million to construct new. It's the additional real estate being sold with the resort that may not warrant the total price. Valued at almost $2 million, 30 building lots and 250 undeveloped acres could be expensive baggage for a buyer. Beautiful views won't service the debt.

PROS Healthy cash flow and lots of land spell expansion potential. Plus, a residence is thrown in. Devise a marketing plan on the back nine. Get a tee time whenever you want it.

CONS Servicing millions in debt could land a new owner in the rough. Regardless, you'll have a new handicap: a 20-year-old irrigation system and an aging fleet of 80 golf carts that'll cost half a million to replace. And what if it rains? The bottom line takes a beating in bad weather.

***Inc.* has no stake in the sale of the business featured.**

The magazine cannot confirm the accuracy of financial or other information offered by the seller. Inquiries should be directed to David Haynes, P.O. Box 928, Waynesville, NC 28786.

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